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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Special Attention of:
All FHA Approved Lenders and Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All FHA Approved 203(k) Consultants
All HUD Approved Housing Counselors

Transmittal: Handbook 4000.1
Issued: March 18, 2015
Effective Date: June 15, 2015

1. This Transmits:

Handbook 4000.1, FHA Single Family Housing Policy Handbook (Handbook 4000.1):

- *Doing Business with FHA - Lenders and Mortgagees*
- *Doing Business with FHA - Other Participants - Appraiser*
- *Origination through Post-Closing/Endorsement for Title II Forward Mortgages*
- *Origination through Post-Closing/Endorsement for Title II Forward Mortgages - 203(k) Rehabilitation Mortgage Insurance Program*
- *Origination through Post-Closing/Endorsement for Title II Forward Mortgages - 203(k) Consultant Requirements*
- *Origination through Post-Closing/Endorsement - Appraiser and Property Requirements for Title II Forward and Reverse Mortgages*
- *Quality Control, Oversight and Compliance - Lenders and Mortgagees*
- *Quality Control, Oversight and Compliance - Other Participants - Appraiser*

2. Explanation of materials transmitted:

This FHA Single Family Policy Handbook (Handbook 4000.1) is being published to provide updates to the content initially published September 30, 2014 and incorporate several additional sections.

Below is a list of those updates being made to the September 30, 2014 publication of *Origination through Post-Closing/Endorsement for Title II Forward Mortgages* section of Handbook 4000.1.

Handbook Changes	Page Number
Updated Table of Contents to reflect the following changes: - Switched the titles for headings II and A - Moved 203(k) consultant requirements to heading 9 under A	
Changed 'Interested Third Parties' to 'Interested Parties' in 'Handling of Documents', to distinguish Mortgagees from other Interested Third Parties	66
Changed 'interviewer' to 'loan originator' in Section 'URLA and HUD/VA Addendum to the URLA' to be consistent with referenced form	72
Updated 'Borrower Authorization for Verification Information' to clarify the Mortgagee must obtain the non-borrowing spouse's consent to verify their SSN with the Social Security Administration and remove requirement for non-borrowing spouse to sign Part IV of form HUD-92900-A	73

Handbook Changes	Page Number
Deleted Section 'Disclosure Regarding Interest Due Upon Prepayment' because the post settlement interest rule eliminated this section of the Regulation for mortgages closed after January 21, 2015	N/A
Updated 'Lead-Based Paint' with specific guidance from the HUD-EPA Lead Disclosure Rule	77
Clarified 'Appraiser Independence'	83
Reorganized Section 'Borrower Minimum Decision Credit Score' into more logical order and to address the result of a single score	89
Clarified that in community property states, the Borrower's spouse is not required to be a Borrower or a Cosigner in Section 'Borrower and Co-Borrower Ownership and Obligation Requirements'	89
In 'Military Personnel Eligibility' added 'if a Family Member will not occupy the subject Property as their Principal Residence' to requirement to document Borrower's intent to occupy the subject Property upon discharge from military service, to be consistent with the Standard	90
Changed 'Loan Officer' to 'Loan Originator' in 'Other Parties to the Transaction', to be consistent with terminology usage	96
Clarified language in 'Investment Property'	99
Edited 'Restrictions on Property Flipping' due to discontinuance of Property Flipping waiver, and re-organized section to be consistent with the regulation	102
Clarified Mixed Use of Property requires a minimum of 51 percent of the entire building square footage for residential use	104
Replaced 'vacancy and maintenance factor used by the Jurisdictional HOC' with 'fair market rent' in 'Calculation' Section of 'Self-Sufficiency Rental Income Eligibility, to be consistent with the calculation of Rental Income	106
Removed requirement to obtain a completed form HUD-92561 from 'Condominium Unit', to be consistent with the purpose of this form	N/A
Added guidance to 'Legal Restrictions of Conveyance (Free Assumability)', to address the impact of leased equipment	109
Incorporated changes from Mortgagee Letter 14-25 to Section 'Nationwide Mortgage Limits'	112
Clarified guidance in Section 'Loan-to-Value Limits', to identify the credit score restriction to all programs	114
Clarified guidance in Section 'Mortgage Insurance Premiums'	117
In 'Annual (or Periodic) Mortgage Insurance Premiums,' clarified the amount of the annual MIP is based on the LTV ratio, Base Loan Amount and the term of the Mortgage	118
Added guidance to Section ' Minimum Property Requirements and Minimum Property Standards' which was originally incorporated in the Appraiser draft guidance	119
Inserted new Section 'Leased Equipment', to address guidance on property valuation	127
Inserted new Section 'Conditional Commitment Direct Endorsement Statement of Appraised Value'	128
Clarified data submitted to TOTAL Mortgage Scorecard through an approved AUS vendor in a data format acceptable to the AUS Vendor in Section 'Requirements for the Submission of Data through TOTAL Mortgage Scorecard	129
Revised language in 'New Versions of TOTAL Mortgage Scorecard' for clarity	131
Removed 'only the non-occupying co-Borrower has a credit score' from 'Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)' as TOTAL scorecard is programmed with this requirement	132
Added guidance to 'General Credit Review Requirements (TOTAL)' in conjunction with the guidance added to address the Mortgagees responsibility to verify a non-borrowing spouse's SSN	133
Changed Section title and guidance from 'Updated Credit Report (TOTAL)' to 'New Credit Report (TOTAL)'	134
Added definition for Short Sales	137, 210
Added guidance on payments for General Liabilities and Debt	139, 211
Clarified guidance for Business Debt in Borrower's Name	147, 216
Changed re-verification of employment requirement from within 10 days of Disbursement to within 10 days of the date of the Note to provide greater flexibility in the closing process.	149, 222
Added IRS Form 4506-T, *Request for Transcript of Tax Return* to Past Employment Documentation, consistent with the use of this form.	149, 222

Handbook Changes	Page Number
Clarified 'Required Documentation' for Disability Benefits	157, 230
Clarified 'Required Documentation' for Other Public Assistance	161, 234
Added the Standard for Expected income (TOTAL) to match the requirement in Manual Underwriting	169
Removed 'gift funds' from list of non-eligible reserves (TOTAL), to be consistent with TOTAL scorecard's handling of gift funds	175
Changed heading from 'Additional Reserves for Three- to Four-Unit Properties' to 'Required Reserves for Three- to Four-Unit Properties'	175
Clarified guidance for Governmental Entities in 'Source Requirements for the Borrower's Minimum Required Investment' is when acting in their governmental capacity, to provide direction consistent with HUD's interpretive rule	176, 249
Removed Section 'Reserves' from Gifts (Personal and Equity) (TOTAL)	180
Added guidance to Section 'Documenting the Transfer of Gifts' to address donor's ability to borrow the gift funds from the Mortgagee or affiliate	181, 255
Edited Section 'Interested Party Contributions (TOTAL) to read 'Interested Parties may contribute up to 6 percent of the sales price…' to eliminate circular logic in the calculation of the Adjusted Value	182, 255
Clarified that Instrumentalities of Government do not have 501(c)(3) status for the purpose of secondary financing	185, 259
Expanded definition of HUD-approved Nonprofit in 'Secondary Financing Provided by HUD-Approved Nonprofits (TOTAL) to address all roles of Nonprofits	187, 260
Clarified that the underwriter's approval date of the Property is indicated as Action Date of form HUD-92800.5B	199, 279
Added clarification to Section 'Non-Traditional Mortgage Credit Report' to identify insufficient trade lines to generate a credit score	202
Added "a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user" as an acceptable credit reference	204
Added clarification to Disputed Derogatory Credit Accounts (Manual)	207
Removed Section 'Calculation' from Revolving Charge Accounts (Manual) as the calculation is included in the standard	215
Inserted clarification to required pay stubs in 'Traditional Current Employment Documentation' for consistency with Alternative Current Employment Documentation	221
Deleted 'The mortgagee must verify and document all assets submitted to the AUS.' from Section 'Reserves (Manual)' as this requirement is inconsistent with the Manual underwriting section.	248
Added new Section 'Reserves for One- to Two-Unit Properties' as this requirement was inadvertently omitted from the previous publication	248
Added new Section 'Per Diem Interest and Interest Credits' to provide additional guidance	293
Reorganized Section 'Mortgage and Note'	294
Clarified guidance in 'Procedures for Endorsement'	301
Removed Maximum Mortgage Worksheet (HUD-92700) from 'Uniform Case Binder Stacking Order' consistent with the updated Section 203(k) guidance which has removed this form requirement	302
Added Refinance Authorization Screen Printout to 'Uniform Case Binder Stacking Order'	304
Clarified Application Deadline for 'Disasters and 203(h) Mortgage Insurance for Disaster Victims'	346
Clarified the maximum Loan-to-Value ratio limit is 100 percent of the Adjusted Value for 'Disasters and 203(h) Mortgage Insurance for Disaster Victims' to be consistent with the use of this term	346
Added 'General Mortgage Eligibility' to Refinances to incorporate restrictions contained in the FY 2015 Appropriations Act	357
Added 'LTV Limitations Base on Borrower's Credit Score' to Non-Credit Qualifying and Credit Qualifying Streamline Refinance Exemptions to address this exemption	366
Clarified which Non-Credit Qualifying Exemptions refer to the Manual Section	366
Clarified 'Reduction in Term' in Section 'Net Tangible Benefit of Streamline Refinances' to clearly identify the payment calculation applicable to the increase in payment	369
Added guidance to Section 'Appraisal and Inspection Requirements on Streamline Refinances' to clearly identify the receipt of an appraisal does not disqualify the use of a streamline refinance	372

Handbook Changes	Page Number
Incorporated changes from Mortgagee Letter 14-23 to Section 'Refinance of Borrowers in Negative Equity Positions Program (Short Refi)'	374
Updated 'Lease and Mortgage' in Section 248 Mortgages on Indian Land	381
Deleted Residential Lease from Section 248 Mortgages on Indian Land and moved the form to FHA's Model Documents page	N/A
Deleted Rider for Section 248 Mortgage from Section 248 Mortgages on Indian Land and moved the form to FHA's Model Documents page	N/A
Clarified Wood Infestation Report for 'Required Documentation for Maximum Financing' in New Construction to provide a clear list of areas where termite treatment is not required	389
Added 'Environmental' to 'Site Considerations' in New Construction to address guidance originally included in the Appraiser draft section	391
Changed heading from 'Individual Well' to 'Individual Water Supply Systems (Wells)' in New Construction	392
Updated guidance in 'Individual Water Supply Systems (Wells)' in New Construction to provide guidance originally included in the Appraiser draft section	392
Added guidance to 'Calculating Maximum Mortgage Amount' in Construction to Permanent to address the Builder's Price to build for Manufactured Housing	394
Added guidance to 'Maximum Mortgage Amount' in Building on Own Land to address the Builder's Price to build for Manufactured Housing	397
Clarified 'Maximum Mortgage Amount Calculation' in Weatherization	400
Corrected references to 'solar or wind energy systems' to 'weatherization improvements' to update terminology usage	400
Clarified installation of solar and wind energy systems must be completed within 120 Days of the Mortgage Disbursement	404
Added guidance to 'Exception to Minimum Required Investment' in Assumptions to address the LTV restrictions by occupancy	406
Updated MIP column under 'Mortgage Term of More Than 15 Years' in Appendix 1.0 to incorporate changes made by ML 15-01	535
Added row in Base Loan Amount Greater than $625,000 in 'Mortgage Term of Less than or Equal to 15 Years' in Appendix 1.0 to incorporate ML 15-01 guidance	535
Updated various hyperlinks that were broken or incorrect and inserted various internal hyperlinks	
Indicated all glossary terms by capitalizing first letter of each word	
Adjusted heading levels to maintain consistent formatting	
Changed 'case assignment' to 'case number assignment' throughout	
Updated 'Case Cancellation Request Form' to 'Case Cancellation Request Template' throughout	
Differentiated between Third Party Originator (TPO) and Sponsored TPO throughout	
Corrected various grammatical, punctuation and word errors and typos	

The following new sections are being added to Handbook 4000.1:

- *Doing Business with FHA - Lenders and Mortgagees*
- *Doing Business with FHA - Other Participants - Appraiser*
- *Origination through Post-Closing/Endorsement for Title II Forward Mortgages - 203(k) Rehabilitation Mortgage Insurance Program*
- *Origination through Post-Closing/Endorsement for Title II Forward Mortgages - 203(k) Consultant Requirements*
- *Origination through Post-Closing/Endorsement - Appraiser and Property Requirements for Title II Forward and Reverse Mortgages*
- *Quality Control, Oversight and Compliance - Lenders and Mortgagees*
- *Quality Control, Oversight and Compliance - Other Participants - Appraiser*

3. Implementation:

The following sections are effective on June 15, 2015, except as otherwise noted below:

- *Doing Business with FHA - Lenders and Mortgagees*
- *Doing Business with FHA - Other Participants - Appraiser*
- *Quality Control, Oversight and Compliance - Lenders and Mortgagees* (Except for Section V.A.3.c.i – Origination and Underwriting Loan File Compliance Review – Minimum Requirements which is effective for case numbers assigned on or after June 15, 2015)

All other sections referenced in section one (1) of this Transmittal are effective for case numbers assigned on or after June 15, 2015.

4. Superseded Policy

This Handbook 4000.1, along with the applicable statutes and regulations, contain all FHA requirements pertaining to Doing Business with FHA for Lenders, Mortgagees and Appraisers; Origination through Post-Closing/Endorsement for Title II Insured Housing Programs Forward Mortgages, 203(k) Consultant Requirements, Appraiser and Property Requirements for Title II Forward and Reverse Mortgages; and Quality Control, Oversight and Compliance for Lenders, Mortgagees and Appraisers. Below is a list of Handbooks, Mortgagee Letters and Housing Notices containing content related to these sections of Handbook 4000.1 that are hereby superseded in their entirety and are cancelled. Also, below is a list of Handbooks, Mortgagee Letters and Housing Notices containing content related to these sections of Handbook 4000.1 that are hereby superseded in part; the partially superseded Handbooks, Housing Notices and Mortgagee Letters remain in effect to the extent not hereby superseded. All previously superseded or cancelled Handbooks, Mortgagee Letters or Housing Notices remain cancelled or superseded, but will continue to remain available for informational purposes only on HUD's website along with the items listed below.

Handbooks Superseded in Whole	Number
Requirements for Existing Housing One to Four Family Units	4905.1
Miscellaneous Type Home Mortgage Insurance, Sec. 223(a), (e), and (d)	4260.1
203K, Rehabilitation Home Mortgage Insurance	4240.4
Application Through Insurance (Single Family) Section 203(n)	4240.3
The Graduated Payment Mortgage Program	4240.2
Mortgage Credit Analysis for Mortgage Insurance on One to Four Unit Mortgage Loans	4155.1
Valuation Analysis for Single Family One to Four Unit Dwellings	4150.2
Valuation Analysis for Home Mortgage Insurance	4150.1
Mortgagee Review Board	4060.2
FHA Title II Mortgagee Approval Handbook	4060.1

Handbooks Superseded in Part	Portion Superseded	Number
Minimum Property Standards for Housing, 1994 Edition	Appendix K	4910.1
Title I Lender Approval Handbook	Superseded in entirety with the exception of: Chapter 1 Paragraphs 1-2, 1-5, 1-7, 1-8, 1-9 Chapter 2 Paragraphs 2-20 and 2-22 Chapter 4 Paragraphs 4-3 and 4-6 Chapter 5 Paragraph 5-5 Appendix 2 Appendix 3	4700.2
Lender's Guide to the Single Family Mortgage Insurance Process	Superseded in entirety with the exception of: Chapter 10 and Chapter 11	4155.2

Mortgagee Letters Superseded in Whole	ML Number
Reduction of Federal Housing Administration (FHA) annual Mortgage Insurance Premium (MIP) rates and Temporary Case Cancellation Authority	2015-01
FHA Maximum Loan Limits Effective for Case Numbers Assigned on or after 1/1/15 - 12/31/15	2014-25
FHA Refinance of Borrowers in Negative Equity Positions: Program Extension	2014-23
Annual Recertification and Post-Approval Updates	2014-09
Guidance on Nonprofits Assisting Government Entities in Providing Secondary Financing in Conjunction with FHA-Insured Mortgages	2014-08
Electronic Signatures	2014-03
Revised Manual Underwriting Requirements	2014-02
Extension of Annual Recertification Filing Deadline for Title I and Title II Lenders and Mortgagees with a December 31, 2013 Fiscal Year End	2013-42
Lender Self-Reporting Requirements	2013-41
FHA Consolidation of Title I and Title II Lender Identification Numbers	2013-35
Application of Unused Borrower Funds from an Escrow Account on an Existing Mortgage in FHA-Insured Refinance Transactions	2013-29
Back to Work - Extenuating Circumstances	2013-26
Collections and Disputed Accounts -- TOTAL Mortgage Scorecard User Guide	2013-25
Handling of Collections and Disputed Accounts	2013-24
Subordination of Partial Claim Liens Associated with Federal Housing Administration (FHA) Streamlined Refinances	2013-16
Minimum Cash Investment and Secondary Financing Requirements -- Acceptable Documentation for Funds Provided by Federal, State, or Local Governments, their Agencies or Instrumentalities	2013-14
Lender Insurance Program	2013-12
Manual Underwriting for Loans with Decision Credit Score Below 620 and Total Fixed Payments to Effective Income Ratio Exceeding 43.00%	2013-05
Revision of Federal Housing Administration (FHA) policies concerning cancellation of the annual Mortgage Insurance Premium (MIP) and increase to the annual MIP	2013-04
Interim Reporting Requirements for Small Supervised Lenders and Mortgagees	2012-29
Restatement and Update of Flood Zone Requirements for Federal Housing Administration (FHA) Insured Mortgages	2012-28
Revised Recertification Fee Calculation for FHA-Approved Branch Offices	2012-27
Documentation Requirements for Income from the Social Security Administration (SSA)	2012-15
Miscellaneous Underwriting Issues- Rescission of Disputed Accounts and Collection Accounts Guidance (Mortgagee Letter 2012-3)	2012-10

Mortgagee Letters Superseded in Whole	ML Number
FHA Refinance of Borrowers in Negative Equity Positions: Program Enhancements	2012-05
Single Family Mortgage Insurance: Annual and Up-Front Mortgage Insurance Premium -- Changes	2012-04
Miscellaneous Underwriting Issues	2012-03
Closing a Loan in the Name of an FHA-Approved Mortgagee Acting as a Sponsored Third-Party Originator (TPO)	2012-02
Revised Lender Approval Requirements	2011-34
The Uniform Appraisal Dataset (UAD) and Appraisal Reporting Forms	2011-30
Alternative Reporting Requirements for Small Supervised Lenders and Clarification of Requirements for Supervised Lenders in Parent-Subsidiary Relationships	2011-25
Elimination of FHA's origination fee cap for the 203(k) Rehabilitation Mortgage Insurance Program	2011-18
Use of HUD/FHA Logo, Name and Acronym in Advertising	2011-17
FHA Refinance Transactions	2011-11
Elimination of the Master Appraisal Report (MAR)	2011-07
Revised Audited Financial Statement Reporting Requirements for Supervised Lenders in Parent-Subsidiary Structures and New Financial Reporting Requirements for Multifamily Mortgagees	2011-05
FHA Capture of Nationwide Mortgage Licensing System and Registry (NMLS) Information	2011-04
Flood Zone Requirements	2010-43
Federal Home Loan Bank - Affordable Housing Program, Homeownership Set-Aside Grant Program	2010-42
Mortgagee Eligibility Requirements and Clarification of FHA’s Electronic Annual Certification Requirements and Procedures	2010-38
Requirements for Combined Loan Amounts	2010-36
Borrower Certification for FHA Refinance of Borrowers in Negative Equity Positions	2010-35
FHA Connection Enhancements to Support Sponsored Third Party Originations (Sponsored Originations)	2010-33
Minimum Credit Scores and Loan-to-Value Ratios	2010-29
FHA Refinance of Borrowers in Negative Equity Positions	2010-23
Implementation of Final Rule FR 5356-F-02, “Federal Housing Administration: Continuation of FHA Reform—Strengthening Risk Management through Responsible FHA-Approved Lenders”	2010-20
Streamline Refinance Transactions and FHA TOTAL Scorecard	2010-19
Updated HUD REO Lead-Based Paint Appraisal Reporting Requirements	2010-17
FHA Case Number and FHA Roster Appraiser Assignments	2010-15
Electronic Signatures On Third Party Documents	2010-14
Appraisal Update and/or Completion Report	2010-13
Use of pay.gov for Lender Approval Application Fees	2010-12
HUD REO Appraisal Validity Period and Second Appraisals	2010-08
Mortgagee Approval for Single Family Programs - Extended Procedures for Terminating Underwriting Authority	2010-03
Real Estate Settlement Procedures Act (RESPA) and FHA Related Policies	2009-53
Short Sales and Short Pay Offs	2009-52
Adoption of the Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005)	2009-51
Second Appraisal Reporting Requirements	2009-48
Appraisal performance standards and sanctions	2009-41
Flood Zone Requirements and Responsibilities of FHA Mortgagees and Appraisers	2009-37
Revised Eligibility	2009-36
Revised Streamline Refinance Transactions	2009-32
Strengthening Counterparty Risk Management	2009-31
Appraisal Validity Periods	2009-30

Mortgagee Letters Superseded in Whole	ML Number
Appraisal Portability	2009-29
Appraiser Independence	2009-28
Electronic Annual Certification to Replace Title II Yearly Verification Report	2009-25
Energy Efficient Mortgages - Increase in the Dollar Amount of Energy Efficient Improvements	2009-18
Accuracy of Lender Data for FHA-approved Mortgagees	2009-17
Manufactured Housing Policy Guidance - Property and Underwriting Eligibility	2009-16
Guidance on FHA Model Mortgage Form for New Mexico	2009-13
Mortgagee Monitoring	2009-12
Adoption of Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71) and Appraisal Reporting Requirements for Properties located in Declining Markets	2009-09
Limits on Cash-Out Refinances	2009-08
Co-branded Outreach Materials	2009-02
Annual Renewal Of FHA Approval	2009-01
Refinance Transactions: New Maximum Mortgage Calculation	2008-40
Revised Eligibility Requirements for FHA Roster Appraisers	2008-39
Revised Down Payment and Maximum Mortgage Requirements	2008-23
Non FHA-approved Mortgage Brokers - Forward Mortgages	2008-17
FHA Loan Underwriting and Transmittal Summary, Form HUD-92900-LT and Addendum to Uniform Residential Loan Application, form HUD-92900-A	2008-15
Nontraditional Credit Verification and Evaluation	2008-11
Adjustable Rate Mortgages-Addition of LIBOR Index	2007-13
The FHA Secure Initiative and Guidance on Appraisal Practices in Declining Markets	2007-11
Truncated Social Security Numbers on Credit Reports	2007-09
Updated Post Endorsement Technical Review Process (PETR)	2007-02
New Construction - Architectural Exhibits Requirements for Single Family Properties	2006-33
Guidance on Handbook 4060.1 REV-2, FHA Title II Mortgagee Approval Handbook	2006-30
Enhancements to the Neighborhood Watch Early Warning System	2006-27
Updates to the FHA Appraiser Roster: Streamlined Appraiser Examination, Roster Renewal Procedures, and Contact Information	2006-26
Revision to form HUD-92564-CN, For Your Protection: Get a Home Inspection -- (Flyer)	2006-24
Property Flipping Prohibition Amendment	2006-14
Charitable Organizations Making Down payment Gifts	2006-13
Revisions to Appendices A and C to Handbook 4150.2 Change 1, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four- Unit Dwellings	2006-09
Revised Borrower's Closing Costs Guidelines	2006-04
Underwriting Guidance to Accommodate Disaster Victims	2006-01
Enhancements to "Streamlined (k)" Limited Repair Program	2005-50
FHA Repair and Inspection Requirements for existing properties and revisions to FHA Appraisal Protocol	2005-48
Revised Refinance Transactions	2005-43
Revisions to Single Family Origination Lending Areas and Nationwide Lending	2005-40
Revised Uniform Residential Loan Application (URLA)	2005-39
Flexibility in the Origination of Single Family Loans Using the Principal-Authorized Agent Relationship	2005-37
Lender Insurance Program	2005-36
Adoption of Revised Appraisal Reporting Forms and Update to FHA? Appraisal Protocol Attachment	2005-34
Underwriting and Servicing Policies to Assist Victims of Presidentially-Declared Major Disaster Areas	2005-33

Mortgagee Letters Superseded in Whole	ML Number
Underwriting Section 8 Homeownership Vouchers-Updated Instructions	2005-32
Underwriting and Servicing Policies to Assist Victims of Presidentially-Declared Major Disaster Areas	2005-31
Reporting Feature Added to the Neighborhood Watch Early Warning System	2005-26
Electronic Payment of the Annual Recertification Fee and Downloading of the Yearly Verification Report via the FHA Connection	2005-24
Amended Late Request for Endorsement Procedures	2005-23
HUD's Energy Action Plan and Energy Efficient Mortgages	2005-21
“Streamline (k)” Limited Repair Program	2005-19
Transfer of HMDA Data Collection to Federal Reserve Board	2005-17
Revised Qualifying Ratios and Treatment of Child Support	2005-16
Total Mortgage Scorecard Update: Tolerance Levels and Documentation Relief	2005-15
Five-Year Hybrid Adjustable Rate Mortgages (ARMs)	2005-14
Single Family Loan Production - Requirements for retention of Architectural Exhibits in cases of new construction of single family properties	2005-09
Revised Post Endorsement Technical Review Process	2005-08
Lender Accountability for Appraisals	2005-06
Elimination of Refunds of Upfront Mortgage Insurance Premiums	2005-03
Seller Concessions and Verification of Sales	2005-02
TOTAL Mortgage Scorecard User Guide Update	2004-47
TOTAL Mortgage Scorecard Update	2004-44
Credit Policy Issues	2004-28
Enhancements to the Neighborhood Watch Early Warning System	2004-23
Mandatory Electronic Submission of Annual Audited Financial Statements	2004-19
Revision to Chapter 6 (Quality Control Plan) of HUD Handbook 4060.1 REV-1 CHG-1, Mortgagee Approval Handbook	2004-06
Enhancements to the Neighborhood Watch Early Warning System	2003-15
Single Family Loan Production - Renumbered Form NPCA-99a, Subterranean Termite Soil Treatment Builder's Guarantee and Form NPCA-99b, New Construction Subterranean Termite Soil Treatment Record	2003-11
Update of Appraiser Qualifications for Placement on FHA Single Family Appraiser Roster and Appraisal Reporting Requirements	2003-09
Mandatory Electronic Submission of Financial Statement Package for Annual Mortgagee Recertification	2003-03
Minimum Distance Requirements Between Private Wells and Sources of Pollution for Existing Properties	2002-25
Credit Watch Termination Initiative - Implementation of a Reduction in Threshold	2002-20
Credit Watch Termination Initiative Threshold	2002-16
Enhancements to the Neighborhood Watch Early Warning System	2002-15
Credit Watch Termination Initiative Threshold	2002-07
Pre-approval Requirements for New Construction and an Alternative to the Inspection Requirements - Single Family Loan Production	2001-27
Credit Watch/Termination Thresholds	2001-25
Mortgagee Approval for Single Family Programs - Elimination of Placement on Credit Watch Status - Superseding the references to Credit Watch in Mortgagee Letter 99-15	2001-23
Underwriting Section 8 Homeownership Vouchers on FHA Insured Mortgages	2001-20
Credit Watch/Termination Thresholds	2001-13
Protection Against Subterranean Termites in New Construction - Single Family Loan Production	2001-04
Credit Watch/Termination Thresholds	2000-43

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FHA Mortgagee Starter Kit Web Page	2000-40
Credit Watch/Termination Thresholds	2000-33
203(k) Rehabilitation Mortgage Program- Single Family Loan Production	2000-25
Credit Watch/Termination Thresholds	2000-21
Neighborhood Watch provides loan performance data via the FHA Connection	2000-20
Mortgagee Approval - Applications for New Origination Approval Agreements - Credit Watch/Termination Initiative	2000-17
Prohibited Branch Arrangements	2000-15
Single Family Loan Production - Implementation of Address Validation in the FHA Connection	2000-13
Credit Watch/Termination Thresholds	2000-12
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Single Family Loan Production - FHA Mortgage Insured Financing for the Construction of Storm Shelters	2000-04
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Single Family Loan Production - Impact of New EPA Lead Hazard Regulations on 203(k) Rehabilitation Mortgage Insurance	2000-01
Single Family Loan Production - FHA Appraisal Reform and the National Appraiser Examination	1999-35
Single Family Loan Production - Revised Regulations on Single Family Housing, New Construction in Floodplains	1999-34
Credit Watch/Termination Thresholds	1999-30
Single Family Loan Production -Informed Consumer Choice Notice	1999-23
Single Family Loan Production: Handbook 4150.2 - Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four- Unit Dwellings, Comprehensive Valuation Package and the updated "Importance of Home Inspections" Form	1999-18
FHA Connection Lender Approval Functions: Adding Branches, Maintaining Institution Data, and Determining Recertification Fees	1999-17
Mortgagee Approval for Single Family Programs - Clarification of Procedures for Terminating Origination Approval Agreements and Placement in Credit Watch Status - Superseding Mortgagee Letter 95-37	1999-15
Single Family Loan Production - Revised Subterranean Termite Treatment Builder's Certification and Guarantee	1999-03
Single Family Loan Production - Concerns about 203(k) Underwriting, Loan Processing and Administration	1998-11
Lender List on the World Wide Web	1998-06
Single Family Production - Applying the HUD Rehabilitation Energy Guidelines to the Section 203(k) Rehabilitation Mortgage Insurance Program	1998-02
Single Family Loan Production: Lender Selection of Appraisers, Opportunities for Female and Minority Appraisers, Accuracy of Appraisals	1997-45
Single Family Quality Control - FHA Quality Assurance Agreement	1997-24
Single Family Loan Production-Revised Escrow Commitment Procedure-Section 203(k) Rehabilitation Mortgage Insurance Program	1997-05
Recent Changes in Lender Approval for Title I and Title II	1996-64
Submission of Timely and Accurate HMDA Reports	1996-39
Single Family Loan Production - Amendatory Clause	1996-37
Single Family Loan Production - Seven-Unit Limitation	1996-23
Single Family Loan Production - Refinance Transactions, Property - Inspections and Other Credit Policy Issues	1996-18
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Mortgagee Approval -- Single Family Loan Production -- Revised Mortgagee/Program Requirements	1995-36
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Secondary Financing Eligibility Requirements for Internal Revenue Code (IRC) Section 115 Entities	Instrumentality of Government Status for Section 115 Entities; and Section 115 Entities – Secondary	2012-24

Mortgagee Letters Superseded in Part	Portion Superseded	ML Number
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Guidance for FHA-Approved Mortgagees Originating and Servicing Mortgages in Presidentially-Declared Major Disaster Areas	Sections III, IV, V, VI, VII, VIII, IX, X, XI, and XII	2012-23
Quality Control Requirements for Direct Endorsement Lenders	Section relating to: Sale and Transfer of Loans	2011-02
Adjustable Rate Mortgages	Section headers: Programs Eligible for Hybrid ARMs, Frequency of Interest Rate Changes, Pre-loan Disclosure, Underwriting, Adjustable Rate Mortgage and Note, and Amortization Provisions	2004-10
Appraising and Financing HUD Real Estate Owned (REO) Properties With FHA-Insured Financing - Single Family Loan Production	Ordering Updated Appraisals	2000-27
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Update to FHA Appraisal Protocol for Fannie Mae Appraisal Forms	2005-17
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Extension of Notice H 96-103, Streamline Refinance of Section 235 Mortgages and Subordination of the Recapture Lien	1997-71
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Housing Notices Superseded in Part	Portion Superseded	HN Number
Back to Work – Extenuating Circumstances	Superseded in entirety except for: Economic Event-Related Factor, Housing Counseling: Sections A, B, C and D.	2013-22

6. Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0189; 2502-0265; 2502-0358; 2502-0404; 2502-0494; 2502-0302; 2502-0527; 2502-0538; 2502-0556; and 2502-0600. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

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Biniam Gebre
Acting Assistant Secretary for Housing-
Federal Housing Commissioner

FHA Single Family Housing Policy Handbook

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I. DOING BUSINESS WITH FHA

A. FHA LENDERS AND MORTGAGEES

The Doing Business with FHA section in this *FHA Single Family Housing Policy Handbook (SF Handbook)* covers Federal Housing Administration (FHA) approval and eligibility requirements for both Title I lenders and Title II Mortgagees, as well as other FHA program participants. The term "Mortgagee" is used throughout for all types of FHA approval (both Title II Mortgagees and Title I lenders) and the term "Mortgage" is used for all products (both Title II Mortgages and Title I loans), unless otherwise specified.

A Mortgagee must fully comply with all of the following approval and eligibility requirements in order to be approved by FHA to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II Mortgages.

The requirements outlined below in subsections 1 through 9 apply to both Single Family (one-to four-units) and Multifamily Mortgagees. If there are any exceptions or program-specific requirements that differ from those set forth below, the exceptions or alternative program requirements are explicitly stated or hyperlinked to the appropriate guidance. Terms and acronyms used in this *SF Handbook* have their meanings defined in the Glossary and Acronyms or in the specific section of the *SF Handbook* in which the definitions are located.

1. Types of Program Approvals

FHA approves Mortgagees separately for participation in the Title I and Title II programs. FHA approval is conveyed to a specific legal Entity and cannot be shared with or extended to other Entities, such as a parent or subsidiary, or any Affiliates of the Mortgagee.

a. Title I

i. Definition

A Title I Mortgagee is a Mortgagee that (a) holds a valid Title I contract of insurance and is approved by FHA, or (b) held a Title I contract that has been terminated or suspended but remains responsible for servicing or selling the Title I Mortgages that it holds and is authorized to file insurance claims on these Mortgages.

ii. Standard

A Title I Mortgagee may be approved to originate, underwrite, close, endorse, service, purchase, hold, or sell loans under the Property Improvement program and/or the Manufactured Housing program. Unless otherwise specified, Title I Mortgagees must meet the same approval requirements and follow the same procedures as Title II Mortgagees.

b. Title II

i. Definition

A Title II Mortgagee is a Mortgagee that has been approved to participate in Title II and/or Title XI programs under the National Housing Act (12 U.S.C. § 1707 et seq. and 12 U.S.C. § 1749aaa et seq.).

ii. Standard

A Title II Mortgagee may be approved to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA Single Family insured Mortgages or multifamily Mortgages.

2. Types of Approved Mortgagees

FHA approves Mortgagees as one of the following four types: Supervised, Nonsupervised, Government, or Investing.

a. Supervised Mortgagee

i. Definitions

(A) Supervised Mortgagee

A Supervised Mortgagee is a financial institution that is a member of the Federal Reserve System (FRS) or whose accounts are insured by the Federal Deposit

Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) (collectively, "Federal Banking Agencies").

(B) Small Supervised Mortgagee

A Small Supervised Mortgagee is a Supervised Mortgagee that has consolidated assets below the threshold for audited financial reporting established by the Federal Banking Agency with oversight of the Mortgagee. Thresholds are codified at 12 CFR §§ 363.1(a), 562.4(b)(2), and 715.4(c), and are subject to change.

ii. Standard

A Supervised Mortgagee must meet the general approval requirements set forth below.

iii. Activities Authorized

A Supervised Mortgagee may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

b. Nonsupervised Mortgagee

i. Definition

A Nonsupervised Mortgagee is a lending institution that has as its principal activity the lending or investing of funds in real estate Mortgages, consumer installment notes or similar advances of credit, the purchase of consumer installment contracts, or from a directly related field. A directly related field is something directly related to the investing or lending of Mortgages, not simply actions relating to real estate in general.

ii. Standard

A Nonsupervised Mortgagee must meet the general approval requirements set forth below and:

- meet FHA's principal activity requirement by deriving at least 50 percent of its activities from real estate Mortgages, consumer installment notes or similar advances of credit, or from purchasing consumer installment contracts;
- have an acceptable business form;
- demonstrate creditworthiness; and
- have an acceptable funding program.

iii. Activities Authorized

A Nonsupervised Mortgagee may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

c. Government Mortgagee

i. Definition

A Government Mortgagee is a federal, state, or municipal governmental agency, a Federal Reserve Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac), or the Federal National Mortgage Association (FNMA, or Fannie Mae).

ii. Standard

A Government Mortgagee must meet the general approval requirements set forth below.

iii. Activities Authorized

A Government Mortgagee may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

d. Investing Mortgagee

i. Definition

An Investing Mortgagee is an organization that invests funds under its own control.

ii. Standard

An Investing Mortgagee must meet the general approval requirements set forth below and:

- have staff capable of managing the Mortgagee's activities relating to its FHA-insured Mortgages;
- have an acceptable business form;
- demonstrate creditworthiness;
- have an acceptable funding program; and
- have funds invested in FHA-insured Mortgages under the Mortgagee's direct control.

iii. Activities Authorized

An Investing Mortgagee may purchase, hold, or sell FHA-insured Mortgages. An Investing Mortgagee may only service FHA-insured Mortgages if it receives prior approval to do so on a case-by-case basis.

iv. Activities Not Authorized

An Investing Mortgagee may not originate, underwrite, or close FHA-insured Mortgages in its own name or submit applications for FHA mortgage insurance.

3. Application and Eligibility Requirements for Approval

a. Title I and Title II Program Applications

An applicant for FHA approval may apply for Title I and Title II approval separately or in the same application.

b. Online Application

An applicant seeking FHA approval must submit an online application containing all information and documentation required to demonstrate eligibility for approval as provided in this section. The online application also includes certification statements and an application fee. Applicants must ensure that all information contained in and documentation submitted with the application is true, complete, and up to date as of the date of submission of the application.

i. Application Information

(A) Standard

The applicant must provide the following information as part of a completed application for FHA approval:

- general information (such as the applicant name, date the applicant was established, Taxpayer Identification Number (TIN), Nationwide Mortgage Licensing System and Registry Unique Identifier (NMLS ID), etc.);
- contact information (the primary contact information for all inquiries related to the application);
- addresses (the geographic and mailing addresses for the applicant's home office);
- Mortgagee type (the type of FHA Mortgagee approval being sought: Supervised, Nonsupervised, Government, or Investing);
- Mortgagee function (the functions being sought: originate/underwrite, service, and/or hold);
- FHA program participation (the FHA program participation being sought: Title I, Title II Single Family, and/or Title II Multifamily);
- Corporate Officers (the names, titles, and Social Security Numbers (SSN) for all Corporate Officers who will be directly involved in managing, overseeing, or conducting FHA business and the designated Officer in Charge); and
- Principal Owners (the names, SSN or TIN, and percent ownership).

(B) Required Documentation

The applicant must submit all of the application information in the online application.

ii. Application Documentation

(A) Standard

The applicant must provide supporting documentation to demonstrate that it is eligible for FHA approval.

(B) Required Documentation

The applicant must submit all eligibility documentation listed in the table below that is required for the type of approval being sought. This documentation must be submitted in the online application.

Documents Required for Application	Supervised Mortgagee	Nonsupervised Mortgagee	Government Mortgagee	Investing Mortgagee	
				Federally Regulated[1]	*Not Federally Regulated*
Business Formation Documents		✓			✓
Commercial Credit Report of Mortgagee		✓			✓
Credit Reports of Principal Owners and Corporate Officers		✓			✓
Resumes of Corporate Officers		✓	✓		✓
Resume of Officer in Charge	✓	✓	✓	✓	✓
State License or Registration	✓	✓		✓	✓
Financial Reports	✓	✓		✓	✓
Funding Program		✓			✓
Fidelity Bond	✓	✓	✓	✓	✓
Errors and Omissions Insurance	✓	✓	✓	✓	✓
Quality Control Plan	✓	✓	✓		

[1]Federally regulated refers to an entity that is a member of the FRS or whose accounts are insured by the FDIC or the NCUA.

iii. Certification of Compliance

(A) Standard

As part of its application, the applicant, through a Corporate Officer, must complete a series of certification statements that address the applicant's compliance with FHA requirements.

(B) Required Documentation

The certification statements must be completed in the online application by a Corporate Officer of the applicant who has been granted the certifying official authorization in FHA Connection (FHAC).

(C) Unable to Certify

If an applicant is unable to certify to all of the certification statements, the applicant must submit a detailed explanation in the online application for each certification that it is unable to complete. The document must:

- explain in detail the reason(s) why the applicant is unable to certify;
- be on the applicant's letterhead;
- be dated;
- be signed by the Corporate Officer who signs the application; and
- contain language certifying that, if approved, the applicant will comply with all FHA requirements.

(D) FHA Review

FHA will review the applicant's explanation for being unable to certify and communicate to the applicant any additional information or documentation needed to render a final decision regarding the applicant's ability to complete the application process.

iv. Application Fee

(A) Standard

The applicant must pay a nonrefundable application fee when submitting an application for approval. Applicants applying for both Title I and Title II approval, whether simultaneously or separately, will only be assessed a single application fee.

(B) Exception

Applicants applying for approval as Government Mortgagees or applicants organized as nonprofits are not required to pay an application fee.

(C) Required Documentation

The application fee must be submitted as part of the online application.

c. Eligibility Requirements

i. Business Form

(A) Standard

A Nonsupervised or Investing Mortgagee must be organized in one of the following acceptable business forms. A sole proprietorship is not an acceptable business form.

(1) Corporation

(a) Definition

A Corporation is an Entity chartered in the United States or its territories.

(b) Standard

The corporation must be organized in accordance with federal and state laws regarding corporations and must provide for permanent succession.

(c) Required Documentation

The corporation must submit copies of its articles of incorporation and bylaws with its application.

(2) Limited Liability Company

(a) Definition

A Limited Liability Company (LLC) is an incorporated legal Entity created under applicable state law that combines certain legal and tax attributes of corporations and partnerships.

(b) Standard

The LLC must:

- consist of two or more members, unless its single member is a corporation or LLC consisting of two or more persons or members;
- have a minimum term of existence of 10 years from the date of application; and
- provide for succession and continuance in the event of the withdrawal or death of a member.

(c) Required Documentation

The LLC must submit its Articles of Organization and operating agreement with its application. The Articles of Organization and operating agreement must contain language addressing the requirements listed in the FHA LLC Standard section above.

The application must include the names and TINs of all members.

(3) Series Limited Liability Company

(a) Definition

A Series LLC is a specific type of LLC that is composed of separate membership interests, which are divided into individual series.

(b) Standard

The Series LLC must comply with all requirements for approval of an LLC. The Series LLC must be organized in accordance with state law that does not conflict with FHA requirements.

The Series LLC's operating agreement must stipulate that:

- no series may participate in FHA programs unless the approved Mortgagee owns 100 percent of the membership interests in that series; and
- the approved Mortgagee remains fully liable for the debts, liabilities, obligations and expenses of any and all series that participate in FHA programs.

(c) Required Documentation

The Series LLC must submit its Articles of Organization and operating agreement with its application.

The application must include the names and TINs of all series participating in FHA programs and of all members in the series participating in FHA programs.

(4) Partnership

(a) Definition

A Partnership is a for-profit business operation between two or more Entities that share ownership and management responsibilities.

(b) Standard

The partnership must:

- be organized in accordance with relevant state law;
- have a term of existence that continues for a minimum term of 10 years from the date of application; and
- be structured to continue to exist even if a partner withdraws.

Each general partner must be a corporation or other chartered institution consisting of two or more individuals.

The partnership must designate a managing general partner, who:

- has as its principal activity the management of one or more partnerships, all of which are Mortgagees, lenders, or property improvement or Manufactured Housing loan lenders; and
- has exclusive authority to deal directly with the Secretary or its designee on behalf of each partnership.

(c) Required Documentation

The partnership must submit its partnership agreement. The partnership agreement must contain language addressing the requirements listed in the FHA Partnership Standard section above.

The partnership must submit the names and TINs of all general partners as well as the names and SSNs of all officers and directors of the managing general partner.

(5) Nonprofit

(a) Definition

A nonprofit is a charitable organization or corporation, civic league, social welfare organization, or local employee association organized for purposes other than profit.

(b) Standard

The nonprofit must be recognized as exempt from taxation by the Internal Revenue Service (IRS) under Internal Revenue Code (IRC) Section 501(a) as an entity described in Sections 501(c)(3) and (4).

A nonprofit organized as a corporation, LLC, or partnership must also comply with all requirements for the applicable business form.

(c) Required Documentation

The nonprofit must provide a copy of its IRS exemption letter. The nonprofit must submit all Business Formation Documents required of its business form.

(B) Required Documentation

The Mortgagee must submit its Business Formation Documents in the online application.

ii. Mortgagee Name

(A) Definitions

(1) Institution Name

The Mortgagee's Institution Name is the legally registered corporate name associated with the Mortgagee's home office.

(2) "Doing Business As" Name

The "Doing Business As" (DBA) name is any registered name or alias that the Mortgagee has a legal right to use.

(B) Standard

The Mortgagee must use as its institution or DBA name the name shown on its Business Formation Documents or for which it has received approval from its state of formation. The Mortgagee is prohibited from using any restricted word in, or as part of, its institution or DBA name in a manner that would violate the Helping Families Save Their Homes Act of 2009 (Pub.L. 111–22) or 18 U.S.C. § 709, which places restrictions on "federal," "government," or "national" and related words, unless the Mortgagee is exempt from these statutory prohibitions.

The Mortgagee's institution name and all DBA names used by a Mortgagee for conducting FHA business must be registered with FHA. The Mortgagee must use only those names that are registered with FHA in advertising and promotional materials related to FHA programs.

(C) Required Documentation

A Nonsupervised or Investing Mortgagee must submit its Business Formation Documents. A Supervised Mortgagee must submit a copy of the state license for its home office as verification of its institution name.

The Mortgagee must submit documentation from the state showing it is legally approved to use its institution name or DBA name, if the name differs from that shown on its Business Formation Documents.

iii. Office Facilities

(A) Definitions

(1) Home Office

The Mortgagee's Home Office is the main office from which it manages its FHA business.

(2) Branch Offices

Branch Offices are all other offices from which a Mortgagee conducts FHA business.

(B) Standard

(1) Home Office

A Mortgagee must designate a headquarters or "home office" for its FHA business. A Mortgagee's home office does not have to be its corporate office.

The Mortgagee's home office must have a staff of at least two full-time employees. The Mortgagee may not rely on a shared receptionist to satisfy this full-time employee requirement.

A Mortgagee's home office facility must:

- be located in a commercial space that is separate from any other Entity (except for reception-type entrances or lobbies);
- be clearly identified, including having a permanently affixed business sign and other means of identification commonly used by businesses, so that the general public and other businesses will know, at all times, exactly which Entity is being represented and is conducting business; and
- display a fair housing poster if the Mortgagee deals with Borrowers and the general public.

(2) Branch Offices

Mortgagees must also register any branch offices that will conduct FHA business in accordance with the requirements set forth in the Branch Office requirements section of this *SF Handbook*. This includes any branches that will originate, underwrite, and/or service FHA-insured Mortgages.

The Mortgagee must ensure each registered branch office has at least one full-time employee. The Mortgagee may not rely on a shared receptionist or contractors to satisfy this full-time employee requirement.

The Mortgagee must display a fair housing poster in branch offices that deal with Borrowers and the general public.

(C) Required Documentation

FHA will verify compliance with the office facilities requirements through any onsite visits.

iv. Ownership and Personnel

The Mortgagee must comply with the following requirements for its ownership and personnel.

(A) Principal Owners

(1) Definition

A Principal Owner is any individual or Entity meeting the following thresholds or roles for the applicable business form:

Business Form	Principal Owners
Publicly Traded Corporation	10% or more ownership
Private or Close Corporation	25% or more ownership
Limited Liability Company	All Members
Partnerships	All Partners

(2) Standard

The Mortgagee must ensure that none of its Principal Owners are suspended, debarred or otherwise excluded from participation in FHA programs (see Restricted Participation).

(3) Required Documentation

A Supervised, Nonsupervised, or Investing Mortgagee must identify all Principal Owners. The Mortgagee must submit this information in the online application.

(B) Personnel Requirements

(1) Corporate Officers

(a) Definitions

(i) **Corporate Officers of Nonsupervised and Investing Mortgagees**

A Corporate Officer is a natural person who serves as one of the following positions for a Nonsupervised or Investing Mortgagee:

- owner;
- President;
- Vice President;

- Chief Operating Officer (COO);
- Chief Financial Officer (CFO);
- Director;
- Corporate Secretary;
- Chief Executive Officer (CEO);
- General Counsel;
- Chairman of the Board;
- General Partner; or
- member or manager of an LLC.

(ii) Corporate Officers of Supervised and Government Mortgagees

A Corporate Officer is a natural person who serves as one of the following positions for a Supervised or Government Mortgagee:

- President;
- Vice President in charge of managing or overseeing any aspect of the Mortgagee's FHA business;
- Chief Operating Officer (COO);
- Chief Financial Officer (CFO);
- Director;
- Corporate Secretary;
- Chief Executive Officer (CEO);
- General Counsel;
- Chairman of the Board;
- General Partner; or
- specifically designated staff member(s) of a Government Mortgagee.

(b) Standard

The Mortgagee must ensure that no Corporate Officers are suspended, debarred or otherwise excluded from participation in FHA programs (see Restricted Participation).

The Mortgagee must ensure its Corporate Officers only represent a single Mortgagee, unless the following criteria are met:

- the Entities represented have some or all of the same Corporate Officers or Principal Owners;
- there is a clear and effective separation of the Entities, and Borrowers know at all times exactly which Entity is being represented and with whom they are conducting business; and
- there is a duly appointed or elected senior officer designated as the Officer in Charge, as described below, who only conducts business of the Mortgagee during normal business hours.

(c) Required Documentation

The Mortgagee must identify all Corporate Officers listed above who will be directly involved in managing, overseeing, or conducting FHA business. The Mortgagee must submit all of this information in the online application.

A Nonsupervised, Government, or Investing Mortgagee must submit a current resume covering the most recent seven-year period for each of these Corporate Officers.

(2) Officer in Charge

(a) Definition

The Officer in Charge is the Corporate Officer designated to manage and direct the Mortgagee's FHA operations.

(b) Standard

The Mortgagee must designate as the Officer in Charge a full-time Corporate Officer who has at least three years of experience in the specific Mortgagee functions or activities that the Mortgagee is approved to perform, including:

- originating or servicing Single Family or multifamily Mortgages;
- investing funds in real estate Mortgages; or
- managing other individuals performing these services.

The Mortgagee cannot rely on a Corporate Officer's experience in real estate sales or brokerage as qualifying experience in Mortgagee functions or activities.

(c) Required Documentation

The Mortgagee must designate the Officer in Charge and submit a current resume covering the most recent seven-year period detailing the individual's relevant experience in the online application.

(3) Employees

(a) Definition

Employees are individuals under the direct supervision and control of the Mortgagee.

(b) Standard

(i) Eligibility of Employees

The Mortgagee must not employ any individual who will participate in FHA transactions if the individual is suspended, debarred, under an Limited Denial of Participation (LDP), or otherwise excluded from participation in FHA programs (see Restricted Participation).

(ii) Compensation

The Mortgagee must compensate employees on one of the following bases:

- a salary;
- a salary plus commission; or
- a commission only.

The Mortgagee may pay bonuses with any of these three compensation plans.

The Mortgagee must not compensate employees who perform underwriting, Quality Control (QC), or mortgage servicing activities on a commission basis.

The Mortgagee must report all employee compensation on IRS Form W-2.

*(iii)*SAFE Act Compliance

The Mortgagee must ensure that it and its employees comply with the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) (12 U.S.C. § 1501 et seq.), including the licensing and registration of its employees in the NMLS.

(iv) Dual Employment

The Mortgagee must require its employees to be its employees exclusively, unless the Mortgagee has determined that the employee's other outside employment, including any self-employment, does not create a prohibited conflict of interest.

(v) Conflicts of Interest

Employees are prohibited from having multiple roles in a single FHA-insured transaction. Employees are prohibited from having multiple sources of compensation, either directly or indirectly, from a single FHA-insured transaction.

(vi) Underwriters

The Mortgagee must ensure that its underwriters are not managed by and do not report to any individual who performs mortgage origination activities.

The Mortgagee must ensure that its underwriters:

- meet basic eligibility requirements; and
- perform the underwriting function in a manner consistent with FHA guidelines.

(c) Required Documentation

The Mortgagee must certify that it meets these requirements in the online application.

v. Creditworthiness

(A) Definitions

(1) Institutional Creditworthiness

A Creditworthy Institution is a Mortgagee with a credit background for the seven-year period preceding the FHA Mortgagee approval application that:

- reflects no delinquent accounts or collections and no legal actions; or
- reflects legal actions that have been adequately resolved, and/or delinquent accounts or collections that have been adequately resolved or that have an acceptable explanation.

(2) Individual Creditworthiness

A Creditworthy Individual is a person whose credit background for the seven-year period preceding the FHA Mortgagee approval application:

- reflects no delinquent accounts or collections, and reflects no legal actions that would impair the individual's credit, such as a foreclosure action, judgment, lien, or bankruptcy; or
- reflects legal actions that have been adequately resolved, and/or delinquent accounts or collections that have been adequately resolved or that have an acceptable explanation.

(B) Standard

A Nonsupervised or Investing Mortgagee must demonstrate that it is a creditworthy institution, and that its Principal Owners and Corporate Officers are creditworthy individuals.

(C) Required Documentation

A Nonsupervised or Investing Mortgagee must submit the following credit reports.

(1) Report on Mortgagee

A Nonsupervised or Investing Mortgagee must submit a commercial credit report not more than 90 Days old with its application. The Mortgagee must provide written explanations for all negative items disclosed on the credit report.

(2) Reports on Principal Owners and Corporate Officers

A Nonsupervised or Investing Mortgagee must submit a personal credit report for each of its Principal Owners and Corporate Officers with its application. The personal credit report must be a Residential Mortgage Credit Report (RMCR) or a Tri-Merged Credit Report (TRMCR) not more than 90 Days old.

The Mortgagee must submit a written explanation from the relevant Principal Owner or Corporate Officer for any negative item disclosed on the credit report.

vi. State License or Registration

Supervised, Nonsupervised, and Investing Mortgagees must meet the following licensing requirements.

(A) Business License or Registration

(1) Standard

The Mortgagee must have an active state license, registration, or equivalent approval to operate its business in the jurisdiction where the home office is located.

The Mortgagee must ensure that each branch office has all licenses, registrations, or approvals required for the types of Mortgagee functions or activities performed by such branch office for the jurisdiction in which that office is located.

A Mortgagee that has been refused a state license or been sanctioned by any state in which it will originate FHA Mortgages must disclose the circumstances of the refusal or sanction and the resolution to FHA.

(2) Required Documentation

The Mortgagee must submit a copy of its state license, registration or equivalent approval for the state in which the home office is located. The Mortgagee, through a Corporate Officer, must certify at application that it has not been refused a license or been sanctioned by any state in which it will originate FHA Mortgages.

If the Mortgagee has been subject to an action against its license, it is unable to certify. It must follow the unable to certify procedures and must submit documentation concerning the action that shows the nature of the action and evidence of an acceptable resolution (such as reinstatement or subsequent approval of a license, payment of sanctions or fines, or similar documentation).

(3) Exception for Mortgagees Exempt from State Licensing Requirements

If the Mortgagee is exempt from state licensing requirements, the Mortgagee must submit documentation of the applicable exemption.

(B) Personnel Licenses

(1) Standard

The Mortgagee must ensure that its Corporate Officers, employees, and Affiliates conducting FHA business for or on behalf of the Mortgagee have all state and federal licenses and registrations required for the Mortgagee functions or activities that such individuals or Affiliates will perform.

(2) Required Documentation

The Mortgagee must certify that it meets this requirement as part of the online application.

vii. Financial Requirements

(A) Standard

Supervised, Nonsupervised, and Investing Mortgagees must meet the following adjusted net worth and liquidity requirements at all times.

(1) Adjusted Net Worth

The Mortgagee must compute its adjusted net worth in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(a) Single Family Programs

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus 1 percent of the total volume in excess of $25,000,000 of FHA Single Family Mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of $2,500,000.

(b) Multifamily Programs

(i) With Servicing

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of 1 percent of the total volume in excess of $25,000,000 of FHA multifamily Mortgages originated, underwritten, purchased, and/or serviced during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(ii) Without Servicing

The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of one-half of 1 percent of the total volume in excess of $25,000,000 of FHA multifamily Mortgages originated, underwritten, and/or purchased during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(c) Dual Participation

A Mortgagee approved to participate in both Single Family and multifamily programs must have a minimum adjusted net worth of $1,000,000 plus an additional net worth of 1 percent of the total volume in excess of $25,000,000 of the aggregate of FHA Single Family and multifamily Mortgages originated, underwritten, purchased, and/or serviced during the prior fiscal year, up to a maximum required net worth of $2,500,000.

(2) Liquidity

Liquid assets must be computed in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

The Mortgagee must hold no less than 20 percent of its required adjusted net worth in liquid assets.

(B) Exception for Government Mortgagees

The adjusted net worth and liquidity requirements do not apply to Government Mortgagees. Government Mortgagees are not required to submit financial information to FHA.

(C) Required Documentation

Supervised, Nonsupervised, and Investing Mortgagees must submit the documentation described below.

(1) Small Supervised Mortgagees

A Small Supervised Mortgagee must submit a copy of its Unaudited Regulatory Report (i.e., report of condition and income, also known as the "call report," which is submitted on the Federal Financial Institutions Examination Council Forms 031 and 041, or a consolidated or fourth quarter NCUA call report, submitted on NCUA Form 5300 or 5310) signed by a Corporate Officer that aligns with its fiscal year end.

(2) Supervised, Nonsupervised, and Investing Mortgagees

(a) Audit of Financial Statements

The Mortgagee must submit financial statements reported in accordance with the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(b) Accounting and Auditing Standards

The Mortgagee must have prepared its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and had its audit performed in accordance with Generally Accepted Auditing Standards (GAAS).

(c) Audit Period Covered

A Mortgagee's audited financial statements must cover 12 months of operation. For companies operating for fewer than 12 months, the audited financial statements must cover all months of operation.

The end date of the audited financial reports must align with the applicant's fiscal year end, with the following exceptions:

- *Audited financial reports over six months old* - If the end date for the audited financial reports is more than six months old, the Mortgagee must also submit unaudited financial statements, signed by a Corporate Officer, for the most recent interim accounting period ending less than three months prior to submission of the application.
- *New institution* - If the Mortgagee is a new institution and has had no revenues or cash flow, the income statement and cash flow statement are not required as part of the audited financial statements.

viii. Principal Activity of Nonsupervised Mortgagees

(A) Standard

A Nonsupervised Mortgagee must derive at least 50 percent of its activities from real estate Mortgages, consumer installment notes or similar advances of credit, the purchase of consumer installment contracts, or from a directly related field. A directly

related field is something directly related to the investing or lending of Mortgages, not simply actions relating to real estate in general.

(B) Required Documentation

The Nonsupervised Mortgagee must submit audited financial statements that reflect the sources of its revenue.

ix. Funding Program

(A) Nonsupervised Mortgagees

(1) Standard

A Nonsupervised Mortgagee that originates FHA Mortgages must maintain a warehouse line of credit or other mortgage-funding program acceptable to FHA.

Title I Mortgagees must have a minimum $500,000 warehouse line of credit or funding program.

Except for multifamily Mortgagees, Title II Mortgagees must have a minimum $1,000,000 warehouse line of credit or funding program, and must ensure the funding program or warehouse line of credit is sufficient to fund the Mortgagee's average 60-Day origination operations. The Mortgagee's average 60-Day origination operations refer to loans closed and funded, and/or purchased by the Mortgagee during the Mortgagee's highest 60-Day period by mortgage amount over the past 12 months.

(2) Required Documentation

The Mortgagee must submit documentation that it either 1) has a line of credit issued directly to the Mortgagee; or 2) has an agreement with a financial institution. The documentation must ensure the funding program or warehouse line of credit is sufficient to fund the Mortgagee's average 60-Day origination operations.

(B) Investing Mortgagees

(1) Standard

An Investing Mortgagee must have available, or have arranged for, funds or a line of credit sufficient to support a projected investment of at least $1,000,000 in property improvement, Manufactured Housing or real estate loans or Mortgages.

(2) Required Documentation

The Mortgagee must submit documentation that it either 1) has a line of credit issued directly to the Mortgagee; or 2) has an agreement to support the projected investment.

x. Fidelity Bond

(A) Standard

A Mortgagee must have fidelity bond coverage that meets the minimum coverage amount set by FHA. The Mortgagee must ensure that its fidelity bond coverage is in a form generally acceptable to one of the secondary mortgage market agencies, such as Freddie Mac, Fannie Mae, or the Government National Mortgage Association (GNMA, or Ginnie Mae).

A Government Mortgagee will meet this requirement if it maintains alternative insurance coverage that is approved by FHA and that ensures the faithful performance of the Mortgagee's responsibilities.

(B) Required Documentation

The Mortgagee must submit documentation evidencing that it has acceptable fidelity bond coverage.

xi. Errors and Omissions Insurance

(A) Standard

A Mortgagee must have errors and omissions insurance that meets the minimum coverage amount set by FHA. The Mortgagee must have errors and omissions insurance that is generally acceptable to one of the secondary market agencies, such as Freddie Mac, Fannie Mae, or Ginnie Mae.

A Government Mortgagee will meet this requirement if it maintains alternative insurance coverage that is approved by FHA and that ensures the faithful performance of the Mortgagee's responsibilities.

(B) Required Documentation

The Mortgagee must submit documentation evidencing that it has acceptable errors and omissions insurance.

xii. Quality Control Plan

(A) Standard

A Mortgagee that originates, underwrites, closes, endorses, or services FHA-insured Mortgages must have a QC Plan that meets FHA's requirements, as described in the

Quality Control, Oversight and Compliance section of this *SF Handbook*. The Mortgagee must maintain and update its QC Plan as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

(B) Required Documentation

The Mortgagee must submit a copy of its QC Plan.

d. Processing of Applications

FHA will review all completed applications for approval to determine if the applicant complies with all eligibility requirements. If FHA requires additional documentation or clarifying information, FHA may request such additional information and provide the applicant with a deadline for response. If the applicant does not submit a completed application or provide the additional information requested by the specified deadline, FHA may deny approval on this basis.

e. Application Approval

If FHA approves the application, FHA will provide notice via email and U.S. mail. This notice will include the Mortgagee's assigned FHA Lender Identification Number (FHA Lender ID), which must be used by the Mortgagee in all FHA computer systems and official correspondence with FHA.

f. Application Denial

If FHA denies the application, FHA will provide written notice to the applicant that includes an explanation of the reasons for the denial.

i. Appeal of Denial

The applicant may submit an appeal of the denial decision through the online application within 30 Days of the date of the denial.

If the denial is sustained, the applicant may submit a second appeal through the online application within 30 Days of the date the denial is sustained. If the denial of approval is sustained a second time, the applicant will be ineligible to apply for FHA approval for a period of 12 months.

ii. Reapplication

An applicant whose approval was denied may reapply after a period of 12 months. The applicant will be required to pay an application fee at the time it submits its second application for approval.

4. Branch Offices

a. Registration

The Mortgagee must register all branch offices in which it conducts FHA business, including originating, underwriting, and/or servicing FHA-insured Mortgages. The Mortgagee must register each branch office and pay branch office registration fees through the Lender Electronic Assessment Portal (LEAP). A 10-digit FHA Lender ID will be assigned to each registered branch office.

The Mortgagee cannot register a new branch office within a HUD Field Office jurisdiction in which it has withdrawn a branch office in the last six months. The Mortgagee must instead make a request through LEAP to reassign the former office's 10-digit FHA Lender ID to the new branch and must pay the branch office registration fee.

b. Single Family Lending Area

i. Definition

An "Area Approved for Business" (AAFB) is the geographic area in which a Mortgagee's home or branch office is permitted to originate or underwrite FHA Mortgages. The AAFB is subdivided into HUD Field Office jurisdictions.

The Mortgagee's AAFB can be viewed through LEAP. The jurisdiction of each HUD Field Office can be verified on www.hud.gov/lenders under the Mortgage Origination tab through the link titled "HUD office jurisdictions."

ii. Standard

All branch offices registered by a Mortgagee will initially be granted a nationwide AAFB. The branch may only exercise its authority to originate or underwrite FHA Mortgages in those states where the Mortgagee fully complies with state origination and/or underwriting licensing and approval requirements.

c. Managers

i. Definitions

(A) Branch Manager

A Branch Manager is an onsite manager for a branch office who manages one branch office.

(B) Regional Manager

A Regional Manager is a manager who oversees the operation of multiple branch offices.

ii. Standard

The Mortgagee must have a branch and/or regional manager to oversee each of its branch offices.

iii. Compensation

The Mortgagee may provide a branch or regional manager with a commission derived from a branch's "net" profit after the Mortgagee has paid all expenses of the branch office.

iv. Required Documentation

The Mortgagee must provide the full names and titles of its branch and regional managers, along with their contact information, in LEAP.

d. Net Branching Prohibition

i. Standard

The Mortgagee must not engage an existing, legally separate mortgage company or broker to function as the Mortgagee's branch office or DBA name or to conduct FHA activities using the Mortgagee's FHA approval.

ii. Exception for Existing Leases

In cases where a Mortgagee acquires an existing office with the intent of operating it as a branch office, and the lease of the acquired office is not transferable to the Mortgagee, FHA will allow the Mortgagee to operate the acquired office as a branch office until the lease expires upon its own terms, so long as the Mortgagee can demonstrate that it has assumed financial liability for the payment of the lease. In such cases, the Mortgagee must document and maintain evidence that it has assumed financial liability for the payment of the lease and produce this documentation to FHA upon request.

5. Supplemental Mortgagee Authorities

After a Mortgagee is approved, the Mortgagee can apply for additional supplemental Mortgagee authorities in accordance with the following requirements.

a. Title II Direct Endorsement Authority

i. Scope of Authority

Approval to participate in FHA's Direct Endorsement (DE) Program permits a Mortgagee to underwrite Title II Single Family Mortgages without FHA's prior review and submit them directly for FHA insurance endorsement.

The Mortgagee must obtain separate DE approval for forward mortgage and Home Equity Conversion Mortgage (HECM) programs.

(A) Definitions

(1) Conditional Authority

Conditional Authority is the authority of a Mortgagee that has applied for and received basic FHA Mortgagee approval as a Supervised, Nonsupervised, or Government Mortgagee, and has not entered or completed the Test Case phase.

(2) Test Case Phase

The Test Case Phase is when a Mortgagee with conditional authority is approved by an FHA Homeownership Center (HOC) to submit one or more cases for FHA underwriting review.

(3) Unconditional DE Authority

Unconditional DE Authority permits a Mortgagee to underwrite and close Title II Single Family Mortgages prior to submitting them to FHA for FHA insurance endorsement.

(B) Standard

To obtain Unconditional DE authority, the Mortgagee must successfully complete the Test Case phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to underwrite Mortgages that satisfy FHA requirements.

(C) Exception

Unconditional DE authority may be granted, without the need for the Test Case phase, to the following categories of Mortgagees created by merger, acquisition, or reorganization:

- surviving FHA-approved Mortgagees; or
- new Mortgagees resulting in new FHA Lender IDs.

ii. Eligibility Requirements

A Mortgagee must meet the following requirements in order to apply for and participate in FHA's DE Program.

(A) Standard

(1) FHA Mortgagee Approval

A Mortgagee must have FHA approval as a Title II Supervised, Nonsupervised, or Government Mortgagee to be eligible to participate in the DE Program.

Mortgagees approved as Investing Mortgagees are not eligible to participate in the DE Program.

(2) Origination Experience

The Mortgagee must have:

- at least five years of experience in the origination of Single Family Mortgages; or
- a Principal Officer with at least five years of managerial experience in the origination of Single Family Mortgages. For the purposes of this *SF Handbook* a Principal Officer is the same as a Corporate Officer.

(3) Personnel Requirements

The Mortgagee must have an underwriter on its permanent staff.

(B) Exception for Certain Mortgagees Created by Merger, Acquisition, or Reorganization

Unconditional DE authority may be granted without the need for the Test Case phase following a merger, acquisition, or reorganization, so long as the following criteria are met:

- Either or both institutions, of the surviving FHA-Approved Mortgagee or the FHA-Approved Mortgagee resulting in a new FHA Lender ID, were unconditionally DE-approved prior to the merger, acquisition, or reorganization.
- If both institutions are unconditionally DE-approved, then the management and staff of at least one of the Mortgagees involved with the Mortgagee's Unconditional DE authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee. If only one institution is unconditionally DE-approved, then the management and staff involved with that Mortgagee's Unconditional DE authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Mortgagee.
- Both Mortgagees have claim and default rates at or below the 150 percent national compare ratio. If only one institution is unconditionally DE-approved, then only that Mortgagee's claim and default rate is to be considered.

iii. Application and Approval

(A) First-Time Applicants

(1) Application

(a) Request to Enter into the Test Case Phase

The Mortgagee must submit a written application for Unconditional DE authority to the Jurisdictional HOC for the state where the Mortgagee's home office is located.

(b) Required Documentation

The Mortgagee's DE application must contain a letter signed by a Corporate Officer requesting entry into the Test Case phase that contains the Mortgagee's home office 10-digit FHA Lender ID and all underwriters' names and the four-character FHA-assigned identification numbers issued to these underwriters.

(2) Notification and Entrance Conference

If the Mortgagee meets the requirements for conditional authority and submits the required documentation, the Mortgagee will receive a Test Case phase approval letter from the HOC. The HOC will also provide reference materials and a list of the specific requirements that must be met for the Mortgagee to obtain Unconditional DE authority.

The Mortgagee must participate in an in-person or telephone entrance conference with the HOC before it will be eligible to submit Test Cases.

(3) Test Case Phase

The Mortgagee must submit Test Cases to FHA for review during the Test Case phase. FHA will review these cases for compliance with FHA's origination and underwriting requirements.

(a) Case Binder Submission

The Mortgagee must submit all Test Case files to the Jurisdictional HOC associated with the Mortgagee's home office.

(i) Pre-closing Submission

If the Mortgagee submitted the case binder before closing, the HOC will either issue a Firm Commitment (approval) or Firm Reject (denial). The Mortgagee may close and submit for insurance endorsement any Mortgage that has received a Firm Commitment.

(ii) Post-closing Submission

If the Mortgagee first submitted the case binder to FHA after closing, the HOC will perform a Test Case review for compliance with FHA underwriting guidelines. The HOC will either insure the Mortgage, or reject the Mortgage and return it to the Mortgagee for correction. The Mortgagee must make any necessary corrections and provide any required documents to the HOC before the loan can be insured.

If the Mortgagee did not comply with FHA requirements and has not corrected all errors, the HOC will reject the Mortgagee's request for insurance.

(b) Test Case Underwriting Report

The Mortgagee, or its underwriter, must review the Underwriting Report completed by the HOC available through FHAC on all Test Cases. Mortgagees may request a change in an unacceptable rating for a Mortgage by submitting a request to the HOC that processed the Test Case. The Mortgagee must include all relevant documentation to support its request.

(c) Test Case Closing Package

The Mortgagee must ensure that all required certifications are executed and included with each complete case binder that is submitted to the HOC for endorsement processing.

(4) Approval Decision

(a) Approval of Unconditional DE Authority

After the Mortgagee successfully completes the required Test Cases, FHA will grant the Mortgagee approval for Unconditional DE authority. The Mortgagee must receive a minimum of 15 Firm Commitments for forward mortgage authority or five Firm Commitments for HECM mortgage authority within a period of 12 consecutive months following the date of the entrance conference in order to be granted Unconditional DE authority.

The Mortgagee will receive an approval letter and may then begin submitting Mortgages to FHA for endorsement without prior review by FHA.

(b) Denial of Unconditional DE Authority

The Mortgagee will be denied approval for Unconditional DE authority if, at any time during the Test Case phase, FHA determines that the Mortgagee's submissions demonstrate a lack of knowledge of FHA requirements, or if FHA identifies unacceptable practices.

(i) Denial Decision

FHA will provide the Mortgagee with written notice of a denial of Unconditional DE authority that specifies the reason for the denial.

(ii) Denial Appeal

The Mortgagee may appeal this denial by requesting an informal conference. The Mortgagee must submit its appeal in writing to the HOC

that processed the Test Cases. The HOC must receive the appeal within 30 Days of the date of the notice of denial.

(iii) Informal Conference

FHA will conduct an informal conference with the Mortgagee and its counsel, if any, no later than 60 Days from the date of the denial.

(iv) Determination

FHA will issue a determination in writing following the informal conference stating whether Unconditional DE authority is approved or denied.

(v) Appeal Following Informal Conference

The Mortgagee may appeal a denial following the informal conference by submitting a written request to the Deputy Assistant Secretary (DAS) for Single Family Housing, or his or her designee, within 30 Days of the date of the denial determination.

The Mortgagee is not entitled to any meeting or informal conference with the DAS or the designee. The Mortgagee will be notified in writing of the decision of the DAS or the designee. The decision of the DAS or the designee constitutes final agency action.

(c) Reapplication Following Denial

Any Mortgagee who is denied Unconditional DE authority will not be permitted to reapply until it has:

- demonstrated appropriate remedial education or action;
- supplied evidence to support such action; and
- waited a minimum of 180 Days from the date of final agency action.

(B) Applications from Mortgagees Created by Merger, Acquisition or Reorganization

(1) Standard

The Mortgagee must submit a written application for Unconditional DE authority to the Jurisdictional HOC for the state where the Mortgagee's home office is located.

(2) Required Documentation

The Mortgagee's DE application must contain the following:

- a letter signed by a Corporate Officer requesting Unconditional DE authority that specifies:

- the FHA-approved and non-approved Entities involved in the merger, acquisition, or reorganization;
- which Entity is the surviving Entity; and
- the effective date of the merger, acquisition, or reorganization; and

- supporting documentation evidencing that the Mortgagee meets the exception criteria detailed above.

iv. Principal/Authorized Agent Relationship

(A) Definition

A Principal/Authorized Agent Relationship is one in which a Mortgagee with Unconditional DE authority permits another DE-approved Mortgagee to underwrite Mortgages on its behalf.

(B) Standard

A Mortgagee with Unconditional DE authority (acting as the "principal") can designate another DE-approved Mortgagee to act as its "authorized agent" for the purpose of underwriting Mortgages. A sponsored Third-Party Originator (TPO) may not act as a principal or authorized agent.

(1) Required Authorities

The authorized agent must have Unconditional DE authority to underwrite the type of Mortgage that is being underwritten. The Mortgagees must be approved as follows.

To originate forward Mortgages:

- the principal may have Unconditional DE authority for either forward Mortgages or HECM; and
- the authorized agent *must* have Unconditional DE authority for forward Mortgages.

To originate HECM:

- the principal may have Unconditional DE authority for either forward Mortgages or HECM; and
- the authorized agent *must* have Unconditional DE authority for HECM.

(2) Process

The principal must originate the Mortgage and the authorized agent must underwrite the Mortgage. The Mortgage may close in either Mortgagee's name, and either may submit the Mortgage for insurance endorsement.

(C) Required Documentation

The relationship must be documented in FHAC by the authorized agent, and the principal's FHA Lender ID must be entered in the "Originator" field on the FHA case file and in FHAC.

v. Sponsor/Sponsored Third-Party Originator Relationship

(A) Definition

A Sponsor/Sponsored Third-Party Originator (TPO) Relationship is one in which a Mortgagee (acting as the "sponsor") permits another entity to act as an originator and originate Mortgages on behalf of the Mortgagee.

(B) Standard

Only a Mortgagee with Direct Endorsement Authority may use sponsored TPOs.

A Mortgagee must ensure its sponsored TPO meets all state license, registration, or equivalent approval requirements.

A Mortgagee must ensure its sponsored TPO and the TPO's officers, partners, directors, principals, managers, supervisors, loan processors, and loan originators are not ineligible under 24 CFR § 202.5(j).

A Mortgagee must ensure its sponsored TPO does not purchase or hold FHA-insured Mortgages and may not close Mortgages in their own name.

Exception for Mortgagees Acting as a Sponsored Third-Party Originator

A Mortgagee may permit its sponsored TPO to purchase or hold FHA-insured Mortgages and close Mortgages in their own name, if the TPO is also a Mortgagee.

(C) Required Documentation

A Mortgagee with Unconditional DE authority must register a sponsored TPO on the Sponsored Originator Maintenance screen in FHAC.

b. Title II Single Family Lender Insurance Authority

i. Scope of Authority

Approval to participate in FHA's Title II Single Family Lender Insurance (LI) Program permits a Mortgagee to endorse Mortgages for insurance with no prior review by FHA.

(A) Definitions

(1) LI Authority

LI Authority permits a Mortgagee with Title II Unconditional DE authority to endorse Single Family Mortgages for insurance without prior review by FHA.

(2) LI Compare Ratio

The LI Compare Ratio is the percentage of Mortgages underwritten by the Mortgagee that are in claim or default status compared with the percentage of Mortgages in claim or default status for all Mortgagees operating in the same state(s) over the preceding two-year period.

(B) Standard

To obtain Title II Single Family LI authority, the Mortgagee must meet the eligibility requirements as stated below and successfully complete the application and approval processes.

ii. Eligibility Requirements

(A) Standard

To obtain LI approval, the Mortgagee must:

- be an FHA-approved Mortgagee with Unconditional DE authority; and
- have an LI Compare Ratio that is at or below 150 percent.

(1) Exception for New Mortgagees Created by Merger, Acquisition, or Reorganization Resulting in New FHA Lender Identification Number

If the Mortgagee lacks an LI Compare Ratio because it was recently created by a merger, acquisition, or reorganization that resulted in the issuance of a new FHA Lender ID, it must:

- have Unconditional DE authority;
- have had one or more Mortgagees with LI authority at the time of the merger, acquisition, or reorganization, participate in the merger, acquisition, or reorganization;
- have had an acceptable LI Compare Ratio for all Mortgagees with LI authority participating in the merger, acquisition, or reorganization, at the time of the merger, acquisition, or reorganization;
- have an LI Compare Ratio that is derived from aggregating the claims and defaults of all formerly FHA-approved Mortgagees participating in the merger, acquisition, or reorganization that is not more than 150 percent; and
- ensure that the management and staff who were involved with LI processing for the FHA-approved Mortgagee prior to the merger,

acquisition, or reorganization will continue to exercise those responsibilities for the new Mortgagee.

iii. Application and Approval

(A) First-Time Applicants

(1) Standard

The Mortgagee must apply for LI authority through FHAC.

(2) Required Documentation

Before applying, the Mortgagee must make a written determination that it will participate in the LI Program. The Mortgagee's written determination to participate in the LI Program must be signed by a Principal Owner or Corporate Officer. The Mortgagee must retain a copy of such written determination and make it available to HUD upon request.

(3) Approval

FHAC will automatically approve or deny the Mortgagee's LI authority based on the Mortgagee's DE approval status and LI Compare Ratio.

(B) Application from Mortgagee Created by Merger, Acquisition, or Reorganization Resulting in New FHA Lender Identification Number

(1) Standard

Mortgagees created through mergers, acquisitions, or reorganizations that are issued a new FHA Lender ID must apply for LI authority through LEAP.

(2) Required Documentation

The Mortgagee's application must contain the following:

- a copy of the "Acknowledgment of Terms and Conditions for LI" screen in FHAC, printed and signed by a Corporate Officer;
- the name and contact information of the LI contact person and, at the discretion of the Mortgagee, the name and contact information for the back-up LI contact person;
- the name and FHA Lender ID of the new Mortgagee;
- the names and FHA Lender IDs of the Mortgagees participating in the merger, acquisition, or reorganization; and
- information identifying the management and staff experienced with LI processing employed by the new Mortgagee or transferring from a Mortgagee that previously held LI approval, and describing how the management and staff will continue to exercise LI responsibilities for the new Mortgagee.

c. Title I Manufactured Housing Loan Direct Endorsement Authority

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-Approved Mortgagees and Title I Manufactured Housing Mortgagees must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to a Title I Manufactured Housing Mortgagee's participation in FHA programs.

d. Title II Multifamily Accelerated Processing Authority

Title II Multifamily Accelerated Processing (MAP) authority permits Mortgagees to underwrite and close multifamily Mortgages for FHA insurance without FHA's review prior to closing. The Office of Multifamily Housing grants this authority. Details on this authority are in the *Multifamily Accelerated Processing (MAP) Guide 4430.G*, which is available in HUD's Client Information and Policy System (HUDCLIPS).

6. Post-Approval Operations

a. Operating Requirements and Restrictions

A Mortgagee must comply with the following operating requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this *SF Handbook*.

b. Providing Information to FHA

Once approved, a Mortgagee must provide the following information to FHA using LEAP.

i. Addresses for Correspondence

The Mortgagee must provide the following office addresses:

- Mailing - address of home office
- Geographic - street address(es) where its home and branch offices are physically located
- Administrative - street address to which HUD administrative notices from the HOC Quality Assurance and Processing and Underwriting Divisions, Office of Lender Activities and Program Compliance, Mortgagee Review Board (MRB), Office of General Counsel, and Office of Inspector General (OIG) are sent, including requests and/or demands for indemnification
- Premium - address to which FHA insurance premium correspondence is sent
- Payee - address to which FHA claim correspondence is sent
- Servicing - street address for each servicing office. Mortgagees must indicate which servicing functions (general, escrow administration, delinquency/loss mitigation, foreclosure and Quality Control) are performed at each location

- Computerized Homes Underwriting Management System (CHUMS) - address to which FHA originating, underwriting, endorsing, and closing correspondence is sent
- Endorsement - address to which all FHA mortgage endorsement correspondence is sent, including the Mortgage Insurance Certificate (MIC)

ii. Point of Contact

The Mortgagee must provide a primary administrative contact and an associated email address. The administrative contact is the point of contact associated with the Mortgagee's administrative address, and is the primary contact for all interaction between the Mortgagee and FHA. All HUD administrative notices from the HOC Quality Assurance and Processing and Underwriting Divisions, Office of Lender Activities and Program Compliance, MRB, Office of General Counsel, and OIG will be sent to the administrative contact, including requests and/or demands for indemnification.

Point of contact information is optional for all other addresses listed above.

iii. All Other Contact and Identification Information

The Mortgagee must provide all other required contact and identification information requested in LEAP, including phone, fax, email, and NMLS ID.

iv. Branch Office Information

For each registered branch office, the Mortgagee must provide the branch's address, phone number, email address, DBA name, and branch and regional managers.

v. Principal/Authorized Agent Relationships

The Mortgagee must identify its principal/authorized agent relationships.

vi. Cash Flow Accounts

The Mortgagee must use the Cash Flow Account Setup function in LEAP to provide its bank account information for the following payment types:

- Title I, Single Family Upfront Premiums
- Title I, Single Family (Periodic) Annual Premiums
- Title II, Single Family Upfront Premiums
- Title II, Single Family (Periodic) Monthly Premiums
- Title II, Single Family Claim Remittance Amounts

c. Compliance with Law

The Mortgagee must ensure that its operations are compliant with all applicable federal, state, and local laws.

d. Servicing of FHA-Insured Mortgages

The servicing of FHA-insured Mortgages must be performed by FHA-approved Mortgagees. FHA-approved Mortgagees that use a subservicer to service FHA-insured Mortgages must ensure the subservicer is also approved by FHA to service FHA-insured Mortgages. The servicing Mortgagee is responsible for the actions of their subservicers.

The costs associated with subservicing may not be imposed on the FHA Borrower or passed along to HUD in a claim for mortgage insurance benefits.

e. Employee Compensation

The Mortgagee must ensure its employees continue to be compensated in accordance with the requirements for FHA approval.

The Mortgagee may not compensate an employee for participation in an FHA-insured transaction if the employee will receive other compensation related to the transaction.

f. Conflicts of Interest

The Mortgagee may not permit an employee to have multiple roles in a single FHA-insured transaction. Employees are prohibited from having multiple sources of compensation, either directly or indirectly, from a single FHA-insured transaction.

g. Payment of Operating Expenses

i. Definition

Operating Expenses are the costs associated with equipment, furniture, office rent, overhead, employee compensation, etc.

ii. Standard

The Mortgagee must pay all of its own operating expenses, including the expenses of its home office and any branch offices where it conducts FHA business.

The Mortgagee must maintain all accounts for operating expenses in its name.

h. Prohibited Payments

The Mortgagee, or any of the Mortgagee's employees, must not pay or receive, or permit any other party involved in an FHA-insured mortgage transaction to pay or receive, any fee, kickback, compensation or thing of value to any person or Entity in connection with an FHA-insured mortgage transaction, except for services actually performed and permitted by HUD. The Mortgagee must not pay a referral fee to any person or Entity. The Mortgagee is not permitted to:

- advance funds to a real estate agent, real estate broker, mortgage broker, or packager as an advance of anticipated commissions on sales to be financed with an FHA-insured Mortgage to be provided by the Mortgagee;
- make low interest or no interest Mortgages to a real estate broker, real estate agent, mortgage broker, packager, builder or any other party from whom the Mortgagee accepts proposals involving FHA-insured Mortgages; or
- pay a gratuity or make a gift valued above items that are customarily distributed in the normal course of advertising, public relations, or as a general promotion device, to any person or Entity involved in the Mortgagee's FHA-insured mortgage transactions.

i. Staffing

The Mortgagee must employ sufficient, experienced staff or engage, as permitted, the contract support necessary to carry out the Mortgagee's FHA business.

The Mortgagee is responsible for the actions of its staff that participate in FHA transactions. The Mortgagee must ensure that its Corporate Officers exercise control over the management and supervision of such staff, which must include regular and ongoing reviews of staff performance and of the work performed.

The Mortgagee is responsible for ensuring compliance with the licensing and registration requirements applicable to individual loan originators under the SAFE Act.

j. Use of Contractors

i. Permissible Use

Provided the Mortgagee ensures that the contracting out of certain functions does not and will not materially affect underwriting or servicing decisions or otherwise increase financial risk to FHA, the Mortgagee may use contract support for administrative and clerical functions that include:

- clerical assistance;
- mortgage processing (typing of mortgage documents, mailing and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Mortgages to the Purchasing Mortgagee);
- ministerial tasks in mortgage servicing (processing of a foreclosure action, preservation and protection, and/or tax services);
- legal functions; and
- Quality Control.

The Mortgagee remains responsible for the quality of its FHA-insured Mortgages and must ensure that its contractors fully comply with all applicable laws and FHA requirements.

The Mortgagee and its QC contractor must have a valid contractual agreement in place that specifies the roles and responsibilities of each party.

The Mortgagee may own or have an ownership interest in a separate business Entity that offers such contract services.

ii. Impermissible Use

The functions listed above may not be contracted out to sponsored TPOs, real estate brokers, or other similar Entities.

The Mortgagee may not contract with any Entity or person that is suspended, debarred, under a Limited Denial of Participation (LDP), or who is otherwise excluded from participation in FHA transactions.

A Mortgagee must not contract out management or underwriting functions.

k. Affiliates

i. Definition

Affiliates are contractors, agents, vendors, subservicers, and sponsored TPOs who participate in FHA programs on behalf of an FHA-approved Mortgagee.

ii. Standard

The Mortgagee must ensure that its Affiliates are eligible and properly trained to participate in FHA programs.

The Mortgagee must ensure that each Affiliate of the Mortgagee adheres to FHA requirements when performing activities related to that Mortgagee's FHA business.

l. Branch Office Requirements

All branch offices must meet FHA's staffing, office facilities, and operating requirements, and all applicable licensing requirements.

m. Fair Housing Notice

The Mortgagee must prominently display a fair housing poster at each office that participates in activities related to Residential Real Estate-Related Transactions so as to be readily apparent to all persons seeking residential real estate or brokerage services. The Mortgagee must prominently display the Equal Housing Opportunity logo on documents, including both hard copy and electronic documents, distributed by the Mortgagee to the public.

n. Advertising

i. Definitions

(A) Advertising

Advertising is any communication made to an outside Entity or individual that describes or calls attention to a Mortgagee's FHA products or services.

(B) Advertising Device

An Advertising Device is a channel or instrument used to solicit, promote, or advertise FHA products or programs. Advertising Devices are present in the entire range of electronic and print media utilized by Mortgagees, including, but not limited to, websites, website addresses, business names, aliases, DBA names, domain names, email addresses, direct mail advertisements, solicitations, promotional materials and correspondence.

ii. Standard

(A) Advertising

A Mortgagee is solely responsible for the content of its advertising. This includes advertising abuses by employees of the approved Mortgagee, and any violations committed by employees of Affiliates or companies that advertise or generate FHA mortgage leads or other FHA business on behalf of the Mortgagee. The Mortgagee must ensure that all of its advertising communications and Advertising Devices, and the communications and Advertising Devices of its Affiliates, comply with all applicable state licensing and regulatory requirements.

(B) Advertising Device

A Mortgagee must not create the false impression that any of its Advertising Devices are official government forms, notices, or documents or that otherwise convey the false impression that an Advertising Device is authored, approved, or endorsed by HUD or FHA.

The Advertising Device must be written, formatted, and structured in a manner that clearly identifies the Mortgagee as the sole author and originator of the Advertising Device. The Advertising Device must reflect the Mortgagee's name, location, and appropriate contact information.

(1) HUD and FHA Names and Acronyms

The use of the words "federal," "government," "national," "U.S. Department of Housing and Urban Development," "Federal Housing Administration," and/or the letters "HUD" or "FHA," either alone or with other words or letters, by an FHA-approved Mortgagee, non-approved Mortgagee, or sponsored TPO in a manner

that falsely represents that the Mortgagee's business services or products originate from HUD, FHA, the government of the United States, or any federal, state or local government agency is strictly prohibited.

(2) HUD and FHA Logos and Seals

Other than permissible use of the official FHA-Approved Lending Institution logo and the Equal Housing Opportunity logo, a Mortgagee must not use FHA or HUD logos or seals, any other official seal or logo of the U.S. Department of Housing and Urban Development, or any other insignia that imitates an official federal seal. No person, party, company, or firm, including FHA-approved Mortgagees, may use these logos or seals on any Advertising Device.

(a) FHA-Approved Lending Institution Logo User Restrictions

Only an FHA-approved Mortgagee may display the official FHA-Approved Lending Institution logo on an Advertising Device for the purpose of illustrating to the public the fact that the Mortgagee originates FHA-insured mortgage products.

The Mortgagee must not permit its sponsored TPOs to use the official FHA-Approved Lending Institution logo on any Advertising Device; unless the sponsored TPO is also an FHA-approved Mortgagee.

(b) FHA-Approved Lending Institution Logo Content Restrictions

The FHA-Approved Lending Institution logo must be displayed in a discreet manner. The Advertising Device, when taken as a whole, must emphasize the institution or DBA name of the Mortgagee, and not the federal government.

When using the FHA-Approved Lending Institution logo on an Advertising Device, the Mortgagee must include a conspicuous disclaimer that clearly informs the public that the Mortgagee displaying the Advertising Device is not acting on behalf of or at the direction of HUD, FHA, or the federal government. The disclaimer must be prominently displayed in a location proximate to where the FHA-Approved Lending Institution logo is displayed on each Advertising Device.

The Mortgagee may not alter or modify the FHA-Approved Lending Institution logo in any way.

(3) Advertising Devices of Sponsored Third-Party Originators

Advertising Devices used by sponsored TPOs must reflect the sponsored TPO's name, location, and appropriate contact information.

Sponsored TPOs are prohibited from engaging in any activity or authoring or distributing any Advertising Device that falsely advertises, represents, or

otherwise conveys the impression that the sponsored TPO's business operations, products, or services either originate from or are expressly endorsed by HUD, FHA, the government of the United States, or any federal, state or local government agency.

iii. Required Documentation

The Mortgagee must retain copies of any Advertising Device it produces that is related to FHA programs for a period of two years from the date that the Advertising Device is circulated or used for advertisement, educational, or promotional purposes. Copies of Advertising Devices related to FHA programs may be kept in either electronic or print format and are to be provided to HUD upon request.

7. Post-Approval Changes

The Mortgagee has an ongoing requirement to notify FHA of any changes to the information outlined in its application for FHA approval or in FHA's eligibility requirements.

a. Requirements for All Post-Approval Changes

i. Types of Notification

(A) Information Update

An Information Update is any change to a Mortgagee's basic institution or branch information in the FHA systems that can be directly managed by the Mortgagee.

(B) Notice of Material Event

A Notice of Material Event is the method of submitting a required notice to FHA of a change to the information provided by the Mortgagee at application as evidence of approval eligibility, or a change that affects the Mortgagee's standing as an FHA-approved Mortgagee.

(C) Change Request

A Change Request is the method of submitting information and/or business changes to FHA that requires FHA review and approval before acceptance. Any update or change that cannot be made by the Mortgagee directly is submitted as a Change Request.

ii. Standard

The Mortgagee must submit all Information Updates, Notices of Material Event, and Change Requests to FHA using LEAP. All Information Updates, Notices of Material Event, and Change Requests must be submitted within 10 business days of the change, unless otherwise specified below.

Any change not specifically described in this *SF Handbook* that affects a Mortgagee's approval status or conduct of business with HUD must be reported to FHA with a detailed explanation and supporting documentation.

iii. Required Documentation

The Mortgagee must:

- include a cover letter signed by a Corporate Officer summarizing the business change(s); and
- submit any required documents as specified in Application and Eligibility Requirements for Approval or as described in the LEAP User Manual.

b. Information Updates

The Mortgagee must submit Information Updates, as applicable, for the following information:

- addresses for correspondence
- point of contact
- all other contact and identification information
- branch office information
- Corporate Officers
- principal/authorized agent relationships
- cash flow accounts

c. Change in Partnership or Principal Owners

The Mortgagee must submit a Notice of Material Event to FHA if it experiences a change in partnership or Principal Owners. This includes the addition or removal of partners or Principal Owners.

d. "Doing Business As" Names

The Mortgagee must submit Information Updates, as applicable, for all DBA names or aliases that the Mortgagee has a legal right to use. If the Mortgagee has six or more DBA names, the Mortgagee must submit a Change Request through LEAP to add additional names.

e. Relocation to a Different State

i. Home Office

If the Mortgagee is changing the geographic address of its home office to a different state, the Mortgagee must submit a Change Request to FHA through LEAP.

ii. Branch Office

If the Mortgagee is changing the geographic address of a branch office to a different state, the Mortgagee must terminate the branch FHA Lender ID for the original office and

register the new location as a new branch office. The branch FHA Lender ID for the original branch office will remain active for approximately 45 Days to allow for the completion of processing of Mortgages in process under that identification number.

Mortgages that closed or were approved before the branch office termination became effective may be endorsed. Cases at earlier stages of processing cannot be submitted for insurance by the terminated branch. However, the cases may be transferred for completion of processing and underwriting to another branch office or Mortgagee authorized to underwrite FHA-insured Mortgages in that area.

f. Liquid Assets or Net Worth Deficiency

If at any time a Mortgagee's adjusted net worth or liquidity falls below the required minimum, the Mortgagee must submit a Notice of Material Event to FHA within 30 business days of the deficiency. The Mortgagee must submit a Corrective Action Plan that outlines the steps taken to mitigate the deficiency and includes relevant information, such as contributions and efforts made to obtain additional capital.

g. Operating Loss

If a Mortgagee experiences an operating loss of 20 percent or greater of its adjusted net worth, the Mortgagee must submit a Notice of Material Event to FHA within 30 business days of the loss. The 20 percent threshold applies to losses in any quarter during the fiscal year or losses that exceed 20 percent on the financial statements submitted at recertification.

Following the initial notification, the Mortgagee must submit financial statements every quarter until it shows an operating profit for two consecutive quarters, or until it submits its financial reports as part of its recertification.

h. Fidelity Bond

The Mortgagee must submit a Notice of Material Event to FHA of any significant change(s) to its fidelity bond coverage. If a Mortgagee loses its fidelity bond coverage it must obtain a new policy within 30 Days.

i. Errors and Omissions Insurance

The Mortgagee must submit a Notice of Material Event to FHA of any significant change(s) to its errors and omissions insurance. If a Mortgagee loses its errors and omissions insurance it must obtain a new policy within 30 Days.

j. Principal Activity Change of Nonsupervised Mortgagee

If a Nonsupervised Mortgagee's activities change such that it no longer meets the principal activity requirement, the Mortgagee must submit a Notice of Material Event to FHA and submit a Corrective Action Plan detailing the steps it will take to meet the principal activity requirement to maintain its eligibility.

k. Servicing for Investing Mortgagees

In order to service FHA Mortgages, an Investing Mortgagee must submit a Change Request after it has received FHA Mortgagee approval. With its Change Request, the Mortgagee must:

- designate an Officer in Charge who meets the experience requirements for the Mortgagee's servicing function;
- provide a resume for the Officer in Charge;
- provide a credit report for the Officer in Charge; and
- provide an updated QC Plan.

FHA evaluates these requests on a case-by-case basis and reserves the right to request additional documents necessary to determine the Mortgagee's servicing capabilities.

l. Fiscal Year End Date

The Mortgagee must submit a Change Request to FHA in order to change its fiscal year end date.

Before approving the change, FHA may require the Mortgagee to submit interim financial reports to ensure the Mortgagee's next annual renewal financial reports cover no more than 18 months. Change Requests must be submitted at least 90 Days before the end of the Mortgagee's current fiscal year, as reported to FHA.

m. Supervision Change

If there is a change to a Supervised Mortgagee's supervising or regulatory agency, the Mortgagee must submit a Notice of Material Event to FHA and provide documentation of the change and the effective date.

n. Business Form

The Mortgagee must submit a Notice of Material Event to FHA if it reincorporates; changes its charter; changes the state where it is incorporated, organized or chartered; or completes any other equivalent business change.

i. Change Resulting in New Federal Taxpayer Identification Number

If a Mortgagee receives a different federal TIN as a result of a business change, the Mortgagee must submit a new application for FHA Mortgagee approval.

FHA will issue a new FHA Lender ID to the Mortgagee upon approval. When the new FHA Lender ID is issued, the old FHA Lender ID will remain active for approximately 45 Days to allow for completion of processing of Mortgages in process under that identification number.

ii. Change Not Resulting in New Federal Taxpayer Identification Number

If the Mortgagee does not receive a new federal TIN as a result of a business change, then the Mortgagee must submit the following documents to FHA:

- a Notice of Material Event in the form of a letter signed by a Corporate Officer containing the following provisions:
  - providing a complete description of the business change;
  - confirming that there has been no change in the federal TIN or depositor insurance (in the case of a Supervised Mortgagee);
  - stipulating that the institution will continue to comply with all FHA approval and eligibility requirements; and
  - stipulating that the newly chartered Entity will continue to be responsible for the assets and liabilities of the former Entity, including any problems found subsequently by HUD in the origination or servicing of any Mortgages originated or serviced by the Entity prior to the business change; and
- a copy of the Business Formation Documents.

o. Bankruptcy

i. Business

A Mortgagee that files a Chapter 7 bankruptcy petition must submit a Notice of Material Event to FHA.

A Mortgagee that files a bankruptcy petition under any other chapter of the United States Bankruptcy Code must submit a Notice of Material Event to FHA and submit with its notice, and quarterly thereafter, an internally prepared balance sheet and a statement of adjusted net worth for as long as the bankruptcy petition is active.

The Mortgagee must submit a Notice of Material Event to FHA of each change of status in the bankruptcy. FHA reserves the right to require the Mortgagee to submit additional information upon request in order to determine if the Mortgagee is eligible to maintain its FHA approval.

ii. Personal

The Mortgagee must submit a Notice of Material Event to FHA if any Corporate Officer or Principal Owner commences voluntary or involuntary bankruptcy. A current credit report for that Corporate Officer or Principal Owner must be submitted with the Notice of Material Event. FHA must be notified of each change of status in the bankruptcy proceedings.

p. Lending License(s)

The Mortgagee must submit a Notice of Material Event to FHA of any changes to its license(s). In the event of a lending license surrender or revocation, the Mortgagee must notify FHA which license(s) has been surrendered and provide an explanation of each action.

q. Mergers, Acquisitions, and Reorganizations

i. Merger or Consolidation

FHA's treatment of an FHA-approved Mortgagee for approval purposes following a merger will depend on the prior approval status of the surviving Entity.

(A) Duties of a Non-Surviving FHA-Approved Mortgagee

A non-surviving FHA-approved Mortgagee is required to do the following for any case in which they are merged or consolidated into another Entity.

(1) Standard

A non-surviving FHA-approved Mortgagee that holds a portfolio of FHA-insured Mortgages must transfer the Mortgages within 45 Days to a Mortgagee approved by FHA to service FHA Mortgages.

If a surviving FHA-approved Mortgagee acquires all of the non-surviving FHA-approved Mortgagee's outstanding FHA Mortgages, all of these Mortgages will be transferred in FHA systems to the surviving Entity when the merger is processed.

A non-surviving Mortgagee remains responsible for the payment of insurance premiums and compliance with all other obligations associated with the FHA Mortgages until the Mortgages are transferred and the mortgage record changes are reported accurately to HUD through FHAC, Electronic Data Interchange (EDI), or Business to Government (B2G).

Once the non-surviving Mortgagee ceases to exist or its approval is terminated, whichever comes first, the non-surviving Mortgagee must not:

- accept any new applications for FHA Mortgages;
- hold FHA Mortgages;
- service FHA Mortgages; or
- submit claims to HUD.

(2) Required Documentation

A non-surviving Mortgagee must submit a Change Request to FHA containing the following:

- a letter, signed by a Corporate Officer, that informs FHA of the merger. The letter must include information that:
  - indicates which Entity will survive;
  - provides the FHA Lender IDs for each FHA-approved Mortgagee involved;
  - provides the date the merger occurred or will occur; and
  - requests the withdrawal of the non-surviving Mortgagee's FHA approval in accordance with FHA's voluntary withdrawal procedures;

- a copy of the legal document evidencing the merger;
- if a Supervised Mortgagee, a copy of the letter from the Federal Banking Agency that approved the merger; and
- if applicable, a letter describing how the non-surviving Mortgagee will dispose of the FHA-insured Mortgages that it held or serviced that have not been acquired by a surviving FHA-approved Mortgagee within 45 Days.

(B) Duties of a Surviving Entity

(1) FHA-Approved Mortgagee That Survives a Merger with a Non-Approved Entity

(a) Standard

An FHA-approved Mortgagee that is the surviving Entity in a merger with a non-approved Entity must notify FHA of the merger.

The surviving FHA-approved Mortgagee must register each of the non-surviving Entity's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s).

(b) Required Documentation

An FHA-approved Mortgagee that is the surviving Entity in a merger with a non-approved Entity must submit a Change Request to FHA containing the following:

- a letter, signed by a Corporate Officer, describing the merger;
- a copy of the legal document evidencing the merger; and
- if a Supervised Mortgagee, a copy of the letter from the Federal Banking Agency or other supervisory authority that approved the merger.

(2) Two or More FHA-Approved Mortgagees Merge

(a) Standard

An FHA-approved Mortgagee that is the surviving Entity in a merger with another FHA-approved Mortgagee must notify FHA of the merger.

The surviving Mortgagee must register each of the non-surviving Mortgagee's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s).

(b) Required Documentation

An FHA-approved Mortgagee that is the surviving Entity in a merger with another FHA-approved Mortgagee must submit a Change Request to FHA containing the following:

- a letter, signed by a Corporate Officer, describing the merger;
- a copy of the legal document evidencing the merger; and
- if a Supervised Mortgagee, a copy of the letter from the Federal Banking Agency or other supervisory authority that approved the merger.

(3) Non-Approved Entity That Survives a Merger with an FHA-Approved Mortgagee

(a) Standard

A non-approved surviving Entity must become an FHA-approved Mortgagee in order to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages, or to submit claims on Mortgages to FHA, including those previously held by the non-surviving Mortgagee.

Immediately after becoming approved, the Mortgagee must register each of the non-surviving Entity's branch offices that will remain open under the auspices of the surviving Mortgagee and pay the branch office registration fee(s).

The FHA Lender IDs of the non-surviving Mortgagee's branch offices will remain active for up to 45 Days to allow for the completion of processing of Mortgages in process under these identification numbers. When new FHA Lender IDs for these branch offices are issued, the surviving Mortgagee must cease originating cases under the non-surviving Mortgagee's old FHA Lender ID numbers.

(b) Required Documentation

A non-approved surviving Entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The Entity must also submit with its application a letter signed by a Corporate Officer that describes the merger, and, if applicable, the surviving Entity's intentions regarding the non-surviving Mortgagee's outstanding portfolio of FHA Mortgages and indemnifications.

ii. Sale, Acquisition, or Disassociation

FHA's treatment of a sale, acquisition, or disassociation of an FHA-approved Mortgagee depends on whether the FHA-approved Mortgagee dissolves, continues as a subsidiary or corporate affiliation of the acquiring Entity, or becomes an independent Entity.

(A) An FHA-Approved Mortgagee Is Acquired by Another Entity

(1) Dissolution of Acquired FHA-Approved Mortgagee

(a) Duties of Acquired FHA-Approved Mortgagee

(i) Standard

If an FHA-approved Mortgagee being acquired will be dissolved into another Entity, it must voluntarily withdraw its FHA approval. The acquired Mortgagee must transfer any FHA-insured Mortgages in its portfolio to a Mortgagee approved to service FHA-insured Mortgages.

The dissolving Mortgagee must continue to pay insurance premiums due and meet all other obligations associated with its FHA Mortgages until the Mortgages are transferred and the mortgage record changes are reported accurately to HUD in FHAC, EDI, or B2G.

(ii) Required Documentation

The FHA-approved Mortgagee being acquired must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, that informs FHA of the details regarding the acquisition and requests the withdrawal of its FHA approval.

The Mortgagee must submit a copy of the articles of dissolution, a letter describing the acquisition, and, if applicable, how it will or has disposed of FHA Mortgages that it held or serviced.

(b) Duties of Acquiring Entity

(i) Standard

If a non-approved Entity is acquiring and dissolving an FHA-approved Mortgagee, the non-approved Entity must become an FHA-approved Mortgagee to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages, or to submit claims on FHA Mortgages, including those previously held by the dissolved Mortgagee.

Immediately after becoming approved, the Mortgagee must register each of the dissolved Mortgagee's branch offices that will remain open under the auspices of the acquiring Entity.

(ii) Required Documentation

An FHA-approved Mortgagee that acquires and dissolves another FHA-approved Mortgagee is required to submit a Change Request to FHA through LEAP.

A non-approved Entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The Entity must also submit with its application a letter signed by a Corporate Officer that describes the acquisition, and, if applicable, the acquiring Entity's intentions regarding the dissolved Mortgagee's outstanding portfolio of FHA Mortgages.

(2) Continuation as Subsidiary or Corporate Affiliation

(a) Acquisition by an FHA-Approved Mortgagee

(i) Standard

If the FHA-approved Mortgagee being acquired will continue to operate as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee, the acquired Mortgagee may continue to operate under its existing FHA Lender ID as a separately approved Mortgagee.

(ii) Required Documentation

Acquired FHA-Approved Mortgagee - The acquired Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, informing FHA that it has been acquired and will continue to operate as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee.

Acquiring FHA-Approved Mortgagee - The acquiring FHA-approved Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, that:

- describes the transaction;
- lists the names of all parties;
- lists the FHA Lender IDs of all parties;
- states the date of the acquisition; and
- stipulates that the acquired Mortgagee will continue as a subsidiary or corporate affiliation of the acquiring FHA-approved Mortgagee.

(b) Acquisition by a Non-Approved Entity

(i) Standard

If the acquired FHA-approved Mortgagee will continue to operate as a subsidiary or corporate affiliation of the acquiring Entity, it may continue to operate as an FHA-approved Mortgagee under its own name, whether or not the acquiring Entity becomes FHA-approved.

(ii) Required Documentation

The Mortgagee must submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, describing the acquisition and its future operating status.

(B) An FHA-Approved Mortgagee Acquires a Non-Approved Entity

(1) Standard

If an FHA-approved Mortgagee acquires a non-approved Entity, and the Entity is dissolved, the Mortgagee must notify FHA of the acquisition.

If an FHA-approved Mortgagee acquires a non-approved Entity and the acquired Entity will operate as a subsidiary or corporate affiliation of the Mortgagee, the non-approved Entity must apply for separate approval to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured Mortgages.

(2) Required Documentation

If an FHA-approved Mortgagee acquires a non-approved Entity, and the Entity is dissolved, the Mortgagee is required to submit a Change Request to FHA in the form of a letter, signed by a Corporate Officer, describing the acquisition.

If an FHA-approved Mortgagee acquires a non-approved Entity and the acquired Entity will operate as a subsidiary or corporate affiliation of the Mortgagee, the non-approved Entity must submit an online application for FHA approval containing all information and documentation required to demonstrate eligibility for approval. The Entity must also submit with its application a letter signed by a Corporate Officer that describes the acquisition.

(C) An FHA-Approved Mortgagee Becomes Independent

(1) Standard

When an FHA-approved Mortgagee that has been a subsidiary or part of a larger Entity becomes independent, the Mortgagee must notify FHA of the disassociation.

If the disassociation results in changes to the Mortgagee's Corporate Officers or Principal Owners, the Mortgagee must submit the proper notifications to FHA as described in this *SF Handbook*.

(2) Required Documentation

When an FHA-approved Mortgagee that has been a subsidiary or part of a larger Entity becomes independent, the Mortgagee must submit a Change Request to

FHA in the form of a letter, signed by a Corporate Officer, describing the details of the disassociation.

r. Conservatorship, Receivership, or Transfer of Control

The Mortgagee must submit a Change Request to FHA if it goes into conservatorship, receivership, or is subject to a transfer of control to a federal or state supervisory agency.

The Mortgagee must submit a Change Request to FHA of a change of status in any of these situations and FHA reserves the right to require the Mortgagee to submit additional information in order to determine if the Mortgagee is eligible to maintain its FHA Mortgagee approval.

s. Cease Operations

The Mortgagee must submit a Notice of Material Event to FHA if it ceases operations. If the Mortgagee ceases operations, it must also submit a Change Request for voluntary withdrawal of FHA approval.

t. Unresolved Findings or Sanctions

A Mortgagee must submit a Notice of Material Event to FHA and provide relevant documentation if it or any officer, partner, director, principal, manager, supervisor, loan processor, loan underwriter, or loan originator employed or retained by the Mortgagee is subject to any sanctions or Unresolved Findings contained in a lawsuit or report produced in connection with an investigation, audit, or review conducted by HUD (including those conducted by the HUD OIG), another federal, state, or local governmental agency, or by any other regulatory or oversight Entity with jurisdiction over the matter.

A Mortgagee must submit a Change Request to FHA of a change of status in any Unresolved Finding or sanction previously reported.

8. Annual Recertification

a. General Requirements

i. Standard

(A) Recertification Process

To retain its FHA approval, a Mortgagee must, unless otherwise noted, complete FHA's recertification process on an annual basis.

(B) Filing Deadline

Each Mortgagee must submit its recertification package within 90 Days after the Mortgagee's fiscal year end.

ii. Required Documentation

The Mortgagee must submit its annual recertification package through LEAP. The Mortgagee must submit the following to recertify its FHA approval:

- online certification
- recertification fee
- financial data

A Mortgagee that does not wish to retain its FHA approval must submit a request for voluntary withdrawal of FHA approval.

iii. Exception for Recently Approved Mortgagees

(A) Standard

Mortgagees approved using financial statements that covered a time period ending within the six months before approval are not required to submit a recertification package after the close of that fiscal year.

(B) Required Documentation

At the close of the first, full fiscal year following receipt of FHA approval, the Mortgagee must submit audited financial statements covering the period from the ending date of the financial statements used to obtain initial approval, and ending at the close of the Mortgagee's most recent fiscal year. Mortgagees may not submit financial statements that cover a period of more than 18 months.

b. Online Certification

i. Standard

The Mortgagee, through a Corporate Officer, must complete a series of annual certification statements that address the Mortgagee's compliance with FHA requirements over the Certification Period. The Certification Period is the one-year period beginning on the first day of the Mortgagee's prior fiscal year and ending on the last calendar day thereof.

ii. Required Documentation

The certification must be completed through LEAP by a Corporate Officer of the Mortgagee who has been granted the Certifying Official authorization in FHAC.

iii. Unable to Certify

(A) Standard

If a Mortgagee is unable to truthfully certify to one or more of the statements set forth in the online certification, the Mortgagee must not make the particular certification.

(B) Required Documentation

The Mortgagee must submit an explanation for each certification that it is unable to complete. The Mortgagee may submit supporting documentation with its explanation.

If additional information is required as a result of the Mortgagee's explanation, FHA will advise what additional information or documentation is required and provide a due date for the submission of the requested information or documentation.

(C) FHA Review

FHA will review the Mortgagee's explanation and communicate to the Mortgagee any additional information or documentation needed to render a final decision regarding the Mortgagee's ability to complete the annual recertification process.

iv. Repercussion of False Certification

If a Mortgagee submits a false certification to FHA, the Mortgagee and its certifying Corporate Officer may be referred for criminal, civil, or administrative actions, as appropriate.

c. Annual Recertification Fee

i. Standard

The Mortgagee must pay an annual recertification fee after its online certification has been submitted and accepted. All fee payments must be made electronically. This recertification fee is non-refundable and will not be prorated.

ii. Calculation of Fee Amount

The Mortgagee will be assessed a fee for the Mortgagee's home office and for each branch office registered with FHA. Fees are calculated based on the Mortgagee's program approval(s), Mortgagee type, and the number of FHA-approved branch offices as of the last business day of the Mortgagee's annual reporting period.

A Mortgagee that is terminating a branch office must do so on or before the last business day of the annual reporting period in order to avoid paying the recertification fee for that branch office for the next annual period. Mortgagees attempting to terminate a branch office after the last day of their annual reporting period will not be permitted to do so until the annual recertification fees have been paid in full.

iii. Exception for Government Mortgagees

Government Mortgagees are not required to pay a recertification fee.

d. Financial Data Submission

Supervised, Nonsupervised, and Investing Mortgagees must submit the financial data described below.

i. Small Supervised Mortgagees

A Small Supervised Mortgagee must submit a copy of its Unaudited Regulatory Report, signed by a Corporate Officer, that aligns with its fiscal year end.

ii. Supervised, Nonsupervised, and Investing Mortgagees

(A) Audit of Financial Statements

The Mortgagee must comply with the appropriate financial reporting procedures and requirements set forth in the HUD OIG Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*.

(B) Accounting and Auditing Standards

The Mortgagee must have prepared its financial statements in accordance with GAAP and had its audit performed in accordance with the most currently effective Government Accountability Office Generally Accepted Government Auditing Standards (GAGAS), also referred to as the "Yellow Book," and GAAS.

(C) Audit Related Questions

The Mortgagee must submit answers to FHA's Audit Related Questions. FHA's Audit Related Questions address information about the Mortgagee's financial data, the type of audit completed, and any Findings reported.

(D) Independent Public Accountant Attestation

The Mortgagee must submit its recertification package to an Independent Public Accountant (IPA) for review. The IPA must review the Mortgagee's financial data and Audit Related Questions, and complete the Agreed Upon Procedures. The Agreed Upon Procedures address compliance with required audit procedures.

iii. Exception for Government Mortgagees

Government Mortgagees are not required to submit financial information.

e. Rejection of a Mortgagee's Recertification Package

FHA may reject a Mortgagee's recertification package due to noncompliance. When this occurs, the Mortgagee must resubmit its financial data, and if applicable, the answers to FHA's Audit Related Questions along with an updated IPA attestation. All documents needed to cure deficiencies in the Mortgagee's recertification package must be submitted through LEAP.

f. Recertification Extension Requests

The Mortgagee may request an extension of its recertification package due date. Extension requests must be submitted through LEAP at least 45 Days prior to the Mortgagee's recertification package due date.

g. Failure to Recertify

A Mortgagee may be referred to the MRB for failing to timely and satisfactorily complete the annual recertification process.

9. Voluntary Withdrawal of FHA Mortgagee Approval

A Mortgagee that does not wish to retain, or that is ineligible to retain, its FHA approval must submit a request for voluntary withdrawal of FHA approval.

a. Standard

The Mortgagee must satisfy all outstanding payable indemnification debts and Mortgage Insurance Premiums (MIP), and transfer the servicing and ownership of any FHA-insured Mortgages in its portfolio to an FHA-approved Mortgagee prior to its request being approved, and the Mortgagee will remain obligated on any outstanding indemnification agreements.

FHA will not honor a Mortgagee's request to withdraw while there is a pending administrative action or MRB action, or while the Mortgagee has unpaid indemnification claims or unsatisfied settlement agreement obligations owed to HUD.

b. Required Documentation

The Mortgagee must submit a request for voluntary withdrawal in the form of a letter, signed by a Corporate Officer, and submitted through LEAP. If applicable, the request must be submitted within 10 business days of the change in the Mortgagee's eligibility status.

c. Reapplication

A Mortgagee whose approval is voluntarily withdrawn may reapply for FHA approval any time after its withdrawal.

B. OTHER PARTICIPANTS

1. Appraisers

a. FHA Appraiser Roster

i. Definition

Appraiser refers to an FHA Roster Appraiser who observes, analyzes, and reports the physical and economic characteristics of a Property and provides an opinion of value to

FHA. An Appraiser's observation is limited to readily observable conditions and is not as comprehensive an inspection as one performed by a licensed home inspector.

ii. Standard

FHA requires Mortgagees to select qualified, competent and knowledgeable Appraisers.

FHA maintains a list of qualified Appraisers on the FHA Appraiser Roster. Only an Appraiser on the FHA Appraiser Roster and the Appraisal Subcommittee's (ASC) National Registry may be selected by the Mortgagee to conduct an appraisal for FHA-insured financing.

b. Application and Approval Process

i. Eligibility Requirements

(A) General

For placement on the FHA Appraiser Roster, the appraiser must:

- be a state-certified residential or state-certified general appraiser with credentials based on the minimum licensing/certification criteria issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation;
- not be suspended, debarred, or otherwise excluded; and
- not be listed on HUD's Limited Denial of Participation (LDP) List, HUD's Credit Alert Verification Reporting System (CAIVRS), or subject to any current loss of standing or suspension as a certified appraiser in any state.

(B) Competency Requirement

The Appraiser must be knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP) and FHA appraisal requirements. The Appraiser must meet the competency requirements defined in the USPAP prior to accepting an assignment. The Appraiser must be knowledgeable in the market where the assignment is located.

(C) Licensing Requirement

The Appraiser must be a state-certified residential or state-certified general Appraiser. The Appraiser must maintain and be able to prove certification in all states in which the Appraiser performs appraisals.

ii. Submitting the Application and Required Documentation

The appraiser must submit applications electronically through FHA Connection (FHAC) and follow the FHA Appraiser Roster Application Instructions.

(D) Form HUD-92563a

The appraiser must complete form HUD-92563a in FHAC. The appraiser must sign this form, scan it and save it in a PDF format for delivery to FHA.

The appraiser must certify that the appraiser has "read and fully understands and will comply with *FHA Single Family Housing Policy Handbook (SF Handbook),* and *FHA Single Family Housing Appraisal Report and Data Delivery Guide*."

(E) State Certification

The appraiser must provide a PDF image of their current state-issued certification for each state in which the appraiser is certified.

(F) Pending or Settled Actions

The applicant must disclose all lawsuits, administrative complaints, Findings, or reports produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other regulatory or oversight entity with jurisdiction over the appraiser, its officers, partners, directors, principals, managers, supervisors, and other agents, that are currently pending or were resolved within two years of the application, including any violations of the Fair Housing Act.

iii. Processing of Application

FHA will review all completed applications for approval to determine if the appraiser complies with all eligibility requirements. If FHA requires additional documentation or clarifying information, FHA may request such additional information and provide the appraiser with a deadline for response. If the appraiser does not submit a completed application or provide the additional information requested by the specified deadline, FHA may deny approval on this basis.

iv. Application Approval

If FHA approves the appraiser's application, the Appraiser's name will appear on the FHA Appraiser Roster.

v. Application Rejection

Applicants deemed ineligible for placement on the FHA Appraiser Roster will be notified electronically and provided the reason(s) for denial.

c. Renewal

The Appraiser should renew expiring licenses at least 45 Days prior to expiration in order for state records to process the renewal to the ASC National Registry. FHA Appraiser Roster

records are based on National Registry records. Failure of the Appraiser to renew in a timely manner may result in removal from the FHA Appraiser Roster.

d. Post-Approval Requirements

The Appraiser must comply with the following requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this *SF Handbook*.

i. Compliance with Law

The Appraiser's performance must comply with all applicable federal, state, and local laws. The Appraiser must adhere to all state and local laws relating to appraisal, licensing and certification requirements.

ii. Appraiser Competency Requirement

The Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.

The Appraiser must comply with the USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.

iii. Communications with Appraisers

An FHA Roster Appraiser must avoid conflicts of interest and the appearance of conflicts of interest. To avoid conflicts or the appearance of conflicts:

- no member of a Mortgagee's loan production staff or any person who is compensated on a commission based upon the successful completion of a loan; or
- anyone who reports ultimately to any officer of the Mortgagee not independent of the loan production staff and process;

shall have substantive communications with an Appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment.

The Appraiser is bound by the confidentiality provisions of the USPAP and may not discuss the value or conclusions of the appraisal with anyone other than the Direct Endorsement (DE) underwriter or FHA staff or their representatives. The Appraiser may discuss components of the appraisal that influence its quality and value with the DE underwriter who has responsibility for underwriting the case.

The Appraiser may interact with real estate agents and others, during the normal course of business, to provide property access, information and other market data.

iv. Appraisal Fees

The Appraiser and the Mortgagee or Mortgagee-designated third party will negotiate the appraisal fees and due date. FHA does not establish appraisal fees or due dates.

v. Obligation to Report to FHA

(G) Professional Appraisal Organizations

The Appraiser may be a member or hold designations in professional appraisal organizations. If the Appraiser is a member, candidate or associate of an appraisal organization, the Appraiser must report, by calling 1-800-CallFHA or sending an email to answers@hud.gov, any adjudicated actions resulting in a disciplinary action, or the suspension of the Appraiser, to FHA within 14 Days of such action. On disposition or adjudication of the action, the Appraiser must provide FHA with documentation and official Findings.

FHA may consider sanctions, including removal of an Appraiser found guilty of professional misconduct as adjudicated by a professional appraisal organization.

(H) Safeguards for Appraiser Independence

The Appraiser must report attempts to influence independence to answers@hud.gov or by calling1-800-CallFHA. In addition, the appraiser must report the attempts to HUD OIG Hotline. Mortgagees, Appraisal Management Companies (AMC) and third parties are prohibited from influencing the independence of the Appraiser and the valuation process. Prohibited acts and attempts to influence the results of an appraisal include the following:

- withholding or threatening to withhold timely payment or partial payment for an appraisal report;
- withholding or threatening to withhold future business from an Appraiser, or demoting, terminating or threatening to demote or terminate an Appraiser;
- making expressed or implied promises of future business, promotions or increased compensation for an Appraiser;
- conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- requesting that an Appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- providing the Appraiser with an anticipated, estimated, encouraged or desired value for a subject Property, or a proposed or target amount to be loaned to the Borrower, except for a copy of the sales contract for purchase and any addendum, which must be provided;
- providing the Appraiser, appraisal company, AMC or any Entity or person related to the Appraiser, with stock or other financial or non-financial benefits;
- allowing 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 the Appraiser that includes written evidence of the Appraiser's illegal conduct, violation of the USPAP or

state licensing standards, improper or unprofessional behavior or other substantive reason for removal;

- ordering, obtaining, using, or paying 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 appraisal is clearly and appropriately noted in the loan file; or
  - such appraisal or AVM was completed pursuant to a written, pre-established bona fide pre- or post-funding appraisal review, 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; and
- any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, impartiality or violates law or regulation, including, the Truth in Lending Act (TILA), Regulation Z and the USPAP.

2. Additional Other Participants

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

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 or in the specific section of the *SF Handbook* in which the definitions are located.

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) 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 Parties. Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested 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;

- 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.

(4) Policy on Use of Electronic Signatures

(a) 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.

(b) 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.

(c) 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.

(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

- 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.

(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

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

(d) 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 loan originator identified on the *URLA* must be the actual licensed loan originator regardless of whether the loan originator is employed by a sponsored Third-Party Originator (TPO) or the Mortgagee. The *URLA* must contain the loan originator'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.

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 HUD-approved Nonprofits 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 consent and authorization where necessary to verify specific information required to process the mortgage application, including the non-borrowing spouse's consent for the Mortgagee to verify their SSN with the Social Security Administration (SSA).

(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 SSA.

(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

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 $_____*. 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."

* 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.

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.

(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) 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, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such Properties, the Mortgagee must ensure that:

- the Borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards ("Protect Your Family From Lead In Your Home");
- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
  - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1).
  - providing the seller's disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
  - listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
  - affirming that the Borrower received the pamphlet, disclosure, and records or reports, above; and
- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller's Lead Disclosure Rule obligations, the agent is aware of his/her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(4) 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 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) Sponsored 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 sponsored 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 sponsored 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.

(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 in FHAC.

(b) Case Numbers on Sponsored Originations

The Mortgagee will not be able to order case numbers for sponsored originations unless their sponsored 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 number 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:

- 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 using the Case Cancellation Request Template.

(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 Template.

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 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 Third-Party 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.

(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 qualifications 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 the 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 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 in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;

- 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.

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.

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.

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 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) 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 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.

(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 three differing scores are reported, the middle score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that 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.

(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 or a Cosigner. 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, if a Family Member will not occupy the subject Property as their Principal Residence.

(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 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 issued by the USCIS; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document 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 Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.

(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.

(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.

(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- to 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
- 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.

(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 originator
- loan processor
- underwriter
- Appraiser
- 203(k) Consultant

(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.

Policy Exceptions	Eligibility Requirements
Relocation	A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is: • relocating or has relocated for an employment-related reason; and • establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence. 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.
Increase in family size	A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • 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.
Vacating a jointly-owned Property	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.
Non-occupying co-Borrower	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.

(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.

(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

Investment Properties are not eligible for FHA insurance.

Exception

Investment Properties are eligible if the borrower is a HUD-approved Nonprofit Borrower, or a state and local government agency, or an Instrumentality of Government.

Investment Properties are eligible for the purchase of HUD REO Properties, except under the 203(k) program.

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 (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 Home 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 Homes are located 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 Home 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:

- the Appraiser's estimated replacement cost, less the Appraiser's estimated site value;
- the outstanding balance of the Mortgage; 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.

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

Property Flipping is indicative of 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.

(a) Definition

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

(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.

HA defines the seller's date of acquisition as the date the seller acquired legal ownership 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.

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

A Property that is being resold 90 Days or fewer following the seller's date of acquisition is not eligible for an FHA-insured Mortgage.

(iii) 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 as the Property Value in determining the Adjusted Value.

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

(iv) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;
- 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 (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

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.

(c) Required Documentation

The Mortgagee must obtain a 12 month chain of title documenting 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.

(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:

- a minimum of 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.*

(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 25 percent of the fair market rent.

(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.

(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

(a) Definition

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.

(b) Standard

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 HUD 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.

(c) Required Documentation

***(i)* 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).

***(ii)* PFGMH Certification**

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

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.

(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.

A Property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the Borrower from freely transferring the Property.

Such agreements are acceptable, provided they do not cause a conveyance (ownership transfer) of the insured Property by the Borrower to:

- be void, or voidable by a third party;
- be the basis of contractual liability of the Borrower (including rights of first refusal, pre-emptive rights or options related to a Borrower's efforts to convey);
- terminate or be subject to termination all or part of the interest held by the Borrower;
- be subject to the consent of a third party;
- be subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
- be grounds for accelerating the insured Mortgage; or
- be grounds for increasing the interest rate of the insured Mortgage.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the Real Property or restricting the transfer of the Real Property.

Legal restrictions on conveyance of Real Property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the Real Property, unless such provisions may be terminated at the option of, and with no cost to, the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the Property is subject to impermissible legal restrictions and is generally ineligible for FHA insurance.

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 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 number 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 case number assignment 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 number assignment date, the Adjusted Value is the Property Value.

i. National Housing Act's Statutory Limits

The National Housing Act establishes the maximum Mortgage 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. FHA publishes updated limits effective for each calendar year.

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) Requests for Local Increases

Any requests to change high-cost area Mortgage limits determined by HUD must be received by FHA's Santa Ana Homeownership Center (HOC) at the address below no later than 30 Days from the publication of the limits each year. Any changes in area Mortgage limits as a result of valid appeals will be retroactively in effect for case numbers assigned on or after January 1 of each year.

Each request to change Mortgage limits must contain sufficient housing sales price data, listing one-family Properties sold in an area within the look-back period, January through August of the previous year. Requests should differentiate between Single Family residential Properties, and condominiums or cooperative housing units. Ideally, data provided should also distinguish between distressed and non-distressed sales. Requests for a change will only be considered for counties for which HUD does not already have home sales transaction data for the calculation of Mortgage limits.

All requests for local area increases in all areas will be handled exclusively by FHA's Santa Ana HOC:

Attn: Program Support/Loan Limits
U.S. Department of Housing and Urban Development
Santa Ana Homeownership Center
Santa Ana Federal Building
34 Civic Center Plaza, Room 7015
Santa Ana, CA 92701-4003

(B) 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

(C) 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

(D) 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.

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. LTV Limitations Based on Borrower's Credit Score (Applies to All Transactions)

The Mortgagee must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS), except for Mortgages to be insured under Section 247, Section 248, Streamline Refinances, and Assumptions.

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

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.

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

ii. 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 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.

(B) 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.

(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.

iii. Refinance

For refinance transactions, the maximum LTV is determined in accordance with Refinance program specific requirements.

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

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, Base Loan Amount 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 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

As the on-site representative for the Mortgagee, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which includes HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

Minimum Property Requirements refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of New Construction.

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. 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.

The Mortgagee must confirm that the Property complies with the following eligibility criteria. If the Mortgagee is to be insured under the 203(k) program, the Mortgagee must confirm that the Property will comply with the following eligibility criteria upon completion of repairs and improvements.

(A) Encroachment

The Mortgagee must ensure the subject's dwelling, garage, or other improvements do not encroach onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Mortgagee must also ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject Property. Encroachment by the subject or adjacent Property fences is acceptable provided such Encroachment does not affect the marketability of the subject Property.

(B) Overhead Electric Power

The Mortgagee must confirm that any Overhead Electric Power Transmission Lines do not pass directly over any dwelling, Structure or related property improvement, including pools. The power line must be relocated for a Property to be eligible for FHA-insured financing.

The residential service drop line may not pass directly over any pool, spa or water feature.

If the dwelling or related property improvements are located within the Easement area, the Mortgagee must obtain a certification from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and Local Distribution Lines conforms to local standards and is safe.

(C) Access to Property

The Mortgage must confirm that the Property is provided with a safe pedestrian access and Adequate Vehicular Access from a public or private street. Streets must either be dedicated to public use and maintenance, or retained as private streets protected by permanent recorded Easements.

Private streets, including shared driveways, must be protected by permanent recorded Easements, ownership interest, or be owned and maintained by an HOA. Shared driveways do not require a joint maintenance agreement.

(D) Onsite Hazards and Nuisances

The Mortgagee must require corrective work to mitigate potential adverse effects from any onsite hazards or nuisances reported by the Appraiser.

(E) Abandoned Gas and Oil Well

If the Property contains any abandoned gas or oil wells, the Mortgagee must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.

If the Property contains any abandoned petroleum product wells, the Mortgagee must ensure that a qualified petroleum engineer has inspected the Property and assessed the risk, and that the appropriate state authorities have concurred on clearance recommendations.

(F) Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; and
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

The Mortgagee must ensure that cabinets and built-in appliances that are considered Real Property are present and operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units. For Manufactured Housing requirements, see the Manufactured Housing section.

(G)Swimming Pools

The Mortgagee must confirm that any swimming pools comply with all local ordinances.

(H)Structural Conditions

The Mortgagee must confirm that the Structure of the Property will be serviceable for the life of the Mortgage.

The Mortgagee must confirm that all foundations will be serviceable for the life of the Mortgage and adequate to withstand all normal loads imposed.

(I) Economic Life/Section 223(e)

The Mortgagee must confirm that the term of the Mortgage is less than or equal to the remaining economic life of the Property.

If the Property is located in in an older, declining urban area and the remaining economic life produces an unreasonably short mortgage term by reason of its location, the Property may be acceptable under Section 223(e), provided:

- the area is reasonably able to support adequate housing and living conditions for families of lower income levels;
- the location features adversely affecting the desirability and usefulness of the Property do not endanger the health and safety of its occupants;
- the Property is marketable to the typical occupant of the area;
- the physical life of the Property is greater than or equal to the term of the Mortgage; and
- the Mortgage represents an overall acceptable risk as determined by the Jurisdictional HOC.

All Mortgages to be insured under Section 223(e) must be submitted to the Jurisdictional HOC for prior approval.

(J) Environmental

The Mortgagee must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

(K) Lead-Based Paint

The Mortgagee must confirm that the Property is free of lead paint hazards.

(L) Methamphetamine Contamination

If the Mortgagee or the Appraiser identifies a Property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Property is ineligible due to this environmental hazard until the Property is certified safe for habitation.

(M) Repair Requirements

The Mortgagee must determine which repairs must be made for an existing Property to be eligible for FHA-insured financing.

(N) Utility Services

If utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body, the Mortgagee must confirm that this information is recorded on the deed record.

(O) Water Supply Systems

(1) Public Water Supply System

The Mortgagee must confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

(2) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, the Mortgagee must ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.

Soil poisoning is an unacceptable method for treating termites unless the Mortgagee obtains satisfactory assurance that the treatment will not endanger the quality of the water supply.

Requirements for the location of wells for FHA-insured Properties are located in 24 CFR § 200.926d (f) (3).

The following tables provide the minimum distance required between wells and sources of pollution for Existing Construction:

	Individual Water Supply System for Minimum Property Requirements for Existing Construction*
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to non-residential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum requirements for water wells:

	Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)
1	Lead-free piping

	Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

	Water Wells Minimum Property Requirements for Existing Construction
1	Existing wells must deliver water flow of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

(3) Shared Wells

The Mortgagee must confirm that a Shared Well:

- serves existing Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each existing Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);
- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

For both proposed and existing Properties, the Mortgagee must ensure that the shared well agreement complies with the guidance provided in the following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. ("Supplied" parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection and disinfection; • system component replacement due to wear, obsolescence, incrustation or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party shall be responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(P) Sewage System

The Mortgagee must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing Onsite Sewage Disposal Systems are acceptable provided they are functioning properly and meet the requirements of the local health department

When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, the Mortgagee must confirm connection to an off-site sewage system. When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, the Mortgagee must reject the Property unless the Onsite Sewage Disposal System is repaired or replaced and complies with local health department standards.

(Q)Termites

For existing Properties, the Mortgagee must confirm that the Property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, the Mortgagee must obtain such inspection and evidence of any required treatment to confirm the Property is free of wood destroying insects and organisms.

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 closing, the Mortgagee may establish an escrow account in accordance with Repair Completion Escrow Requirements.

iv. Leased Equipment

The Mortgagee must ensure that the Property Value does not include the value of any equipment, including an energy system, that is not fully owned by the Borrower. The Mortgagee must review the terms of the lease on any equipment to ensure they do not contain any Legal Restrictions on Conveyance (Free Assumability).

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.

v. 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.

vi. 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.

vii. Opinion of Market Value

The Mortgagee must ensure the Market Value of the Property is sufficient to adequately secure the FHA-insured Mortgage.

viii. 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.

b. 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.

c. Conditional Commitment Direct Endorsement Statement of Appraised Value

The Conditional Commitment Direct Endorsement Statement of Appraised Value (form HUD-92800.5B) provides the terms upon which the commitment/direct endorsement statement of appraised value is made and the specific conditions that must be met before HUD can endorse a Firm Commitment for mortgage insurance. The underwriter must complete form HUD-92800.5B as directed in the form instructions.

Where a Statement of Appraised Value is required, the Mortgagee must provide the Borrower with a copy of the completed form HUD-92800.5B.

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 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 the AUS vendor, to meet the requirements 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 (P&I);
- 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) Sponsored Third-Party Originators

The Mortgagee may permit a sponsored TPO to enter data into the AUS. Both the Mortgagee and its sponsored 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 sponsored TPO is entered into the AUS. If the Mortgagee is using an AUS that is

unable to transmit the sponsored 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. All Mortgages being scored for the first time will be scored using the new version. For Mortgages with a case number, the Mortgages will be scored using the version that was effective when the case number was assigned. Existing Mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All Mortgages without a case number will be scored using the new version 90 Days after the new version is implemented.

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.

(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;
- 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;
- 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 downgraded to manual underwriting, 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:

When assessing...	Rescore is not required if:
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)

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. The credit report must indicate the non-borrowing spouse's SSN was matched with the SSA, or the Mortgagee must provide separate documentation indicating that the SSN was matched with the SSA.

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
  - 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) New Credit Report (TOTAL)

The Mortgagee must obtain a new 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 downgraded to manual underwriting, 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.

(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.

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.

(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) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) 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 Mortgage must be downgraded to a Refer and manually underwritten.

This three-year period begins on the date of transfer of title by Short Sale.

(3) 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.

(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

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 number 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 were not incurred to obtain any part of the Borrower's required funds to close on the Property being purchased.

Material Inquiries refer to inquires which may potentially result in obligations incurred by the Borrower 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 primary account holder has made all required payments on the account for the previous 12 months. If

less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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.

(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, Child Support, and Maintenance (TOTAL)

(1) Definition

Alimony, Child Support, and 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 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.

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, and 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 P&I. 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.

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 off 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 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 that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage.

(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 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 acceptable sources 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.

(M) Charge Off Accounts (TOTAL)

(1) Definition

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. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(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 the date of the Note. 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 the date of the Note. 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,* IRS Form 4506-T, *Request for Transcript 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.

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 Employment Income from Part-Time Employment 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 Employment Income from Seasonal Employment 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 Income from Seasonal Employment.

(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 Employment Income from Seasonal Employment, 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.

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:

- 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 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;
- 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 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

For Social Security Disability income, including Supplemental Security Income (SSI), the Mortgagee must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and 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, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

(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, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

The Mortgagee must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (TOTAL)

(1) Definition

Alimony, Child Support, and 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 and Maintenance Income 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 and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.

If the Alimony, Child Support and Maintenance Income 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 and Maintenance Income have been received for less than two years, the Mortgagee must use the average over the time of receipt.

(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.

(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.

If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.

(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.

(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;
- 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.

(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 IRA.

(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.

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.

***(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 for the Property 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.

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.

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.

(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) 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 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.

(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.

(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).

(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 sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored 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.

(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).

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;
- equity in another Property; or
- borrowed funds from any source.

Required 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.

(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, when acting in their governmental capacity, 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, when acting in their governmental capacity, 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 (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.

(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.

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.

(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) 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.

The Mortgagee and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

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.

(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, 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 sales price 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 (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.

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.

(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 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) and does not have 501(c)(3) status. 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
- 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:

- 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

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear 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 (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 originator; 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:

- 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 this 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.

(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.

(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.

(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.

(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 Home 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 Home 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 an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the net sale 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 sale 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 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 Sale of 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.

(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.

(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.

(B) Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value

The underwriter must confirm that form HUD-92800.5B is completed 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.

An authorized officer of the Mortgagee, the Borrower, and the underwriter 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 Mortgage on its approval 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, indicated as Action Date 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 a Mortgage receiving the AUS Refer or downgrade to manual processing 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.

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;
- 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 Providers.

(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
- 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

An 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 to generate a credit score.

(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.

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;
  - caused no insufficient funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

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 has no more than two 30-Day late Mortgage Payments 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.

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

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 may be excluded from consideration in the underwriting analysis:

- 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) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) 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.

(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.

(3) 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 primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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.

(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, and Maintenance (Manual)

(1) Definition

Alimony, Child Support, and 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 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.

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, and 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.

(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 P&I. 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.

(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.

(H) Revolving Charge Accounts (Manual)

(1) Definition

A Revolving Charge Account 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.

(I) 30-Day Accounts (Manual)

(1) Definition

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off 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 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 that funds are available to pay off the balance, in excess of the funds and Reserves required to close the Mortgage.

(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. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(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.

(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.

(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
- 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

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.

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 (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, 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 the date of the Note. 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 Days (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 the date of the Note. 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,* IRS Form 4506-T, Request for Transcript 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.

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 Employment Income from Part-Time Employment 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 Employment Income from Seasonal Employment 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 Income from Seasonal Employment.

(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 Employment Income from Seasonal Employment, 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:

- 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 signed, completed 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 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 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 a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and 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, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

(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, and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the insurance provider.

(3) Calculation of Effective Income

The Mortgagee must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (Manual)

(1) Definition

Alimony, Child Support, and 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 and Maintenance Income 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 and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.

If the Alimony, Child Support and Maintenance Income 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 and Maintenance Income have 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 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.

If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.

(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.

(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:

- 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
- 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 IRA.

(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.

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 for the Property 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.

(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.

(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 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.

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 sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored 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.

(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)

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.

(1) Reserves for One- to Two-Unit Properties

The Mortgagee must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.

(2) 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, when acting in their governmental capacity, 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, when acting in their governmental capacity, 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.

(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 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.

The Mortgagee and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

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.

(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.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price 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
- 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.

(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 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 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) and does not have 501(c)(3) status. 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
- 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:

- 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

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear 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 originator; 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:

- 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 this 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.

(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.

(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;
- 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 Home 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 Home 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 an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the net sale 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 sale 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 Sale of 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.

(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.

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).

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).

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).

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).

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

The total Mortgage Payment includes:

- P&I;
- 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.

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 Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, 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.

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

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;
- 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
- 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 confirm that form HUD-92800.5B is completed as directed in the form instructions.

(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.

An authorized officer of the Mortgagee, the Borrower, and the underwriter 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, indicated as Action Date 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.

(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 Onset of an Economic Event, the Borrower's derogatory credit occurred after the Onset of an Economic Event, 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 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.

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.

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.

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:

- 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.

(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.

(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 Home 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 Home 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.

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. TPOs 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 Settlement Certification in accordance with the instructions provided on the form.

(B) Seller Certification

The seller must sign the certification on the Settlement Certification.

(C) Settlement Agent Certification

The Settlement agent must sign the certification on the Settlement Certification.

(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;
- 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 satisfactory 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).

(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 sponsored 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.

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 the 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. Per Diem Interest and Interest Credits

The Mortgagee may collect per diem interest from the Disbursement Date to the date amortization begins.

Alternatively, the Mortgagee may begin amortization up to 7 Days prior to the Disbursement Date and provide a per diem interest credit. Any per diem interest credit may not be used to meet the Borrower's MRI.

Per diem interest must be computed using a factor of 1/365th of the annual rate

xiii. 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 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

i. Definitions

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.

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

ii. Standard

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.

c. Disbursement of Mortgage Proceeds

i. Standard for Disbursement of Mortgage Proceeds

The Mortgagee must verify that Mortgage 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 closing, the Mortgage proceeds disbursed by the Mortgagee and the cash from the Borrower must equal the total Acquisition Cost or refinance cost.

ii. Required Documentation for Disbursement of Mortgage 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;
- 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 Certification

Confirm that the Settlement Statement or similar legal document and the Settlement Certification, 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.

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, Mortgagee's Assurance of Completion

Confirm that form HUD-92300, *Mortgagee'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.

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 Supply Systems 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.

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:

Pending Mortgage Closure	
If…	**Then…**
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.
When…	**Then…**
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:

Pending Mortgage Endorsement	
If…	**Then…**
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.
When…	**Then…**
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 via FHAC or by batch;
- pay the Upfront MIP (UFMIP) to FHA in a lump sum within 10 Days after mortgage closing or the Disbursement Date, whichever is later;
- send the MIP to FHA, and receive payment status through FHAC or email communications;
- 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 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 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:

Left Side	
Appraisal and Related Documents	
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 (*Uniform Residential Appraisal Report*, *Individual Condominium Unit Appraisal Report*, *Manufactured Homes Appraisal Report*, or *Small Residential Income Property Appraisal Report*)	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
New Construction Exhibits (for all Properties built or proposed in the last 12 months)	
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	
Manufactured Housing	
Engineer's Certification for Manufactured Housing Foundation	
LOMR, LOMA, Elevation Certificate (if not included with New Construction Docs)	
Condominiums	
Certification for Individual Unit Financing	
Specialized Eligibility Documents	
Hawaiian Home Land	
Presidentially-Declared Disaster Area	
Energy Efficient Documents & Home Energy Rating System (HERS) Report	
203(k) Documents	
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
Purchase Transactions	
Purchase Contract	
Amendatory Clause	

Real Estate Certification	
Other contract addendums or short sale approval	
Chain of Title and Evidence of Good and Marketable Title	
Right Side	
Underwriting Documentation	
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	
Refinance Documentation	
Refinance Authorization Screen Printout	
Payoff Statement(s) for all liens to be satisfied with Mortgage proceeds	
Borrower Certification for Refinance of Borrowers in Negative Equity Position	HUD-92918
Borrower Identification Documentation	
Evidence of Social Security Number (SSN) or Tax Identification Number (TIN)	
Legal residency status documents for non-U.S. citizens – Employment Authorization Document	
Credit and Capacity Documentation	
Credit report(s)	
Verification of Mortgage or rent	
Credit related documentation and explanations	

Housing Counseling Certificate(s)	
Source of Funds Verification	
Verification of non-gift source of funds	
Verification of gift source of funds	
Income and Employment Documentation	
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.

(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.

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;
- 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.

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 Template to the FHA Resource Center. This form may be used to correct the property address, Borrower name, ADP Code, maturity and first payments dates, 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.

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.

8. Programs and Products

a. 203(k) Rehabilitation Mortgage Insurance Program

i. Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program 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 outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
- purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located.

Structure refers to a building that has a roof and walls, and stands permanently in one place that contains single or multiple housing units that are used for human habitation.

Mortgages to be insured under Section 203(k) must be processed and underwritten in accordance with the requirements in Origination Through Post-Closing/Endorsement, except where noted otherwise in this appendix.

(A) Types of 203(k) Rehabilitation Mortgages

There are two types of 203(k) rehabilitation Mortgages: Standard 203(k) and Limited 203(k), as described below. The guidance in this appendix is applicable to both Standard 203(k) and Limited 203(k) Mortgages unless noted otherwise.

(1) Standard 203(k)

The Standard 203(k) Mortgage may be used for remodeling and repairs. There is a minimum repair cost of $5,000 and the use of a 203(k) Consultant is required.

(2) Limited 203(k)

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation cost must not exceed $35,000. There is no minimum rehabilitation cost.

(B) Eligible Supplemental Programs and Products

A 203(k) Mortgage may be used in conjunction with the following:

- Section 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages
- Solar and Wind Technologies

ii. Borrower Eligibility

The Borrower must meet the eligibility requirements found in the Borrower Eligibility section, and the additional guidance provided here related to nonprofit agency Borrowers.

The Mortgagee must verify and document the nonprofit agency Borrower's caseload. The Mortgagee must review the Nonprofit List in FHA Connection (FHAC), and ensure the maximum 203(k) case load limitation is not exceeded for nonprofit Borrowers.

iii. Property Eligibility

The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date. If the Mortgagee is unsure whether the Property has been completed for at least one year, the Mortgagee must request a copy of the Certificate of Occupancy (CO) or equivalent.

A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

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

The following property types may be financed:

- a one- to four-unit Single Family Structure;
- an individual condominium unit, meeting the following requirements:
  - the unit must be located in an FHA-approved Condominium Project and must comply with all other requirements for condominiums;
  - rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit;
  - no more than five units per condominium association, or 25 percent of the total number of units, whichever is less, can undergo rehabilitation at any time; and
  - after rehabilitation is complete, the unit is located in a Structure containing no more than four units. For townhouse style condominiums, each townhouse is considered as one Structure, provided each unit is separated by a one and one-half hour firewall from foundation to roof;
- a Site Condominium unit;
- Manufactured Housing where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing;
- a Mixed Use Property with one- to four-residential units, provided:
  - 51 percent of the Gross Building Area (GBA) is for residential use; and
  - commercial use will not affect the health and safety of the occupants of the residential Property; and

- a HUD Real Estate Owned (REO) Property:
  - the Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO Properties are not eligible for 203(k) financing.

(A) Seven Unit Limitation

A Mortgagee may determine that units in a neighborhood are not subject to the Dwelling Unit limitation of no more than seven Dwelling Units within a two block radius when:

- the neighborhood has been targeted by a state or local government for redevelopment or revitalization;
- the state or local government has approved and submitted a plan to HUD describing the program of neighborhood redevelopment and revitalization, including the geographic area targeted for redevelopment, and the nature and proportion of public or private commitments that have been made in support of the redevelopment;
- the nonprofit agency borrower will own no more than 10 percent of the Dwelling Units (regardless of financing type) in the designated redevelopment area; and
- the nonprofit agency borrower will have no more than eight Dwelling Units on adjacent lots.

The Mortgagee must review the approved redevelopment plan to ensure that the units in which the nonprofit agency has or will have a financial interest are located within the targeted geographic area. The Mortgagee must also review public records to determine that the agency does not exceed the limitations on the number of units that they may own in the redevelopment area, and that they have no more than eight adjacent units.

(B) Required Documentation

The Mortgagee must obtain the following documentation:

- a copy of the redevelopment plan; and
- evidence that the state or local government approved the plan.

The Mortgagee must submit the documentation to HUD in the case binder.

iv. Application Requirements

The Mortgagee must provide the Borrower with the form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

v. Case Number Assignment Data Entry Requirements

In order to request a case number for a 203(k) Mortgage, the Mortgagee must enter the following information:

(A) 203(k) Program Type Indicator

The Mortgagee must select either Standard 203(k) or Limited 203(k) as the program type.

(B) Consultant Identification Number

The Mortgagee must enter the Consultant identification number into the "Consultant ID" field on the "Case Number Assignment" screen in FHAC. For a Limited 203(k) with no Consultant, the Mortgagee must enter "203KS" in the "Consultant ID" field.

(C) Automated Data Processing Code

The Mortgagee must enter the appropriate 203(k) Automated Data Processing (ADP) code.

(D) Construction Code

The Mortgagee must enter "Substantial Rehabilitation" in the drop-down menu labeled "Construction Code."

(E) Refinance Type

For a refinance transaction, the Mortgagee must select "Not Streamlined" in the drop-down menu labeled "All Refinances."

(F) Converting From a Non-203(k) to a 203(k) Mortgage

If the Mortgagee had originally requested the case number assignment for a non-203(k) Mortgage, the Mortgagee must update the existing case data in the "Case Number Assignment" screen, changing the ADP Code to a valid 203(k) ADP Code and the "Construction Code" to "Substantial Rehabilitation."

vi. Standard 203(k) Transactions

(A) Standard 203(k) Eligible Improvements

The Standard 203(k) requires a minimum of $5,000 in eligible improvements.

(1) Types of Improvements

Types of eligible improvements include, but are not limited to:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used;
- repairing, reconstructing or elevating an existing foundation where the Structure will not be demolished;
- purchasing an existing Structure on another site, moving it onto a new foundation and repairing/renovating it;
- making structural alterations such as the repair or replacement of structural damage, additions to the Structure, and finished attics and/or basements;
- rehabilitating, improving or constructing a garage;
- eliminating health and safety hazards that would violate HUD's Minimum Property Requirements (MPR);
- installing or repairing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- making changes for aesthetic appeal;
- repairing or adding roofing, gutters and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- making site improvements;
- landscaping;
- installing or repairing exterior decks, patios, and porches;
- constructing a windstorm shelter; and
- covering lead-based paint stabilization costs, if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule (24 CFR 200.805 and 200.810(c)) and the U.S. Environmental Protection Agency's (EPA) Renovation, Repair, and Painting Rule (40 CFR 745, especially subparts E and Q).

(2) Improvements Standards

(a) General Improvement Standards

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

(b) Specific Improvement Standards

Any addition of a Structure unit must be attached to the existing Structure. Site improvements, landscaping, patios, decks and terraces must increase the As-Is Property Value equal to the dollar amount spent on the improvements or be necessary to preserve the Property from erosion.

(B) Standard 203(k) Ineligible Improvements/Repairs

The 203(k) mortgage proceeds **may not** be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject Property, or improvements that solely benefit commercial functions within the Property, including:

- recreational or luxury improvements, such as:
  - swimming pools (existing swimming pools can be repaired)
  - an exterior hot tub, spa, whirlpool bath, or sauna
  - barbecue pits, outdoor fireplaces or hearths
  - bath houses
  - tennis courts
  - satellite dishes
  - tree surgery (except when eliminating an endangerment to existing improvements)
  - photo murals
  - gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use.

(C) Standard 203(k) Establishing Repairs and Improvements

The Mortgagee must select an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster in FHAC. The Mortgagee must not use the services of a Consultant who has demonstrated previous poor performance based on reviews performed by the Mortgagee. The Consultant must inspect the Property and prepare the Work Write-Up and Cost Estimate.

The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair.

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.

Work Item refers to a specific repair or improvement that will be performed.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Consultant must identify on the Work Write-Up each Work Item to be performed by the Borrower. The Borrower must not be reimbursed for labor costs.

(D) Standard 203(k) Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- architectural/engineering professional fees;
- the 203(k) Consultant fee subject to the limits in the 203(k) Consultant Fee Schedule section;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees;
- permits; and
- a Feasibility Study, when necessary to determine if the rehabilitation is feasible.

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation (Self-Help) Loan Agreement.

(E) Standard 203(k) Financeable Contingency Reserve

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

The Mortgagee must refer to the following chart to determine when a Contingency Reserve is required. The minimum and maximum Contingency Reserve is established as a percentage of the Financeable Repair and Improvement Costs.

For Structures with an actual age of less than 30 years:

	Minimum	Maximum
Required when evidence of termite damage	10%	20%
Discretionary	No Minimum	20%

For Structures with an actual age of 30 years or more:

	Minimum	Maximum
Required	10%	20%
Required when utilities are not operable as referenced in the Work Write-Up	15%	20%

The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Standard 203(k) Financeable Mortgage Payment Reserves

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

A Mortgagee may establish a financeable Mortgage Payment Reserve, not to exceed six months of Mortgage Payments. The Mortgage Payment Reserve may include Mortgage Payments only for the period during which the Property cannot be occupied. The number of Mortgage Payments cannot exceed the completion time frame required in the Rehabilitation Loan Agreement.

For multi-unit properties, if one or more units are occupied, the Mortgage Payment Reserve may only include the portion of the Mortgage Payment attributable to the units that cannot be occupied. To calculate the amount that can be included in the Mortgage Payment Reserve, the Mortgagee will divide the monthly Mortgage Payment by the number of units in the Property, and multiply that figure by the number of units that cannot be occupied. The resulting figure is the amount of the Mortgage Payment that will be paid through the Mortgage Payment Reserve. The Borrower is responsible for paying the servicing Mortgagee the portion of the Mortgage not covered by the Mortgage Payment Reserve.

(G)Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance the following fees and charges.

(1) Origination Fee

The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the Financeable Repair and Improvement Costs and Fees, Financeable Contingency Reserves and Financeable Mortgage Payment Reserves.

(2) Discount Points

The Mortgagee may finance a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of Financeable Repair and Improvement Costs and Fees, Financeable Contingency Reserves and Financeable Mortgage Payment Reserves.

(H) Standard 203(k) Required Documentation and Review

(1) Review of Contractor Qualifications

Prior to closing, the Mortgagee must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the Work Write-Up for the amount of the Cost Estimate and within the allotted time frame. To determine whether the contractor is qualified, the Mortgagee must review the contractor's credentials, work experience and client references, and ensure that the contractor meets all jurisdictional licensing and bonding requirements.

(2) Consultant's Work Write-Up and Cost Estimate

The Mortgagee must obtain the Consultant's Work Write-Up and Cost Estimate for all Standard 203(k) Mortgages. The Mortgagee must ensure the Work Write-Up/Cost Estimate specifies the type of repair and cost of each Work Item. The Mortgagee must review the Work Write-Up and ensure that all health and safety issues identified were addressed before, including additional Work Items.

(3) Architectural Exhibits

The Mortgagee must obtain and review all applicable architectural exhibits.

(4) Sales Contract

The Mortgagee must ensure the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO Property, the Mortgagee must ensure that the first block on Line 4 of form HUD-9548, *Instructions and Sales Contract,* is checked, as well as the applicable block for 203(k).

vii. Limited 203(k) Transactions

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation cost may not exceed $35,000. There is no minimum repair cost.

(1) Types of Improvements

Eligible improvement types include, but are not limited to:

- eliminating health and safety hazards that would violate HUD's MPR;
- repairing or replacing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- eliminating obsolescence;
- repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- installing, replacing or repairing exterior decks, patios, and porches; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule.

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR.

(b) Specific Improvement Standards

Patios and decks must increase the As-Is Property Value equal to the dollar amount spent on the improvements.

(B) Limited 203(k) Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. FHA considers a repair to be "major" when any of the following are applicable:

- the repair or improvements are expected to require more than six months to complete;
- the rehabilitation activities require more than two payments per specialized contractor;
- the required repairs arising from the appraisal:
  - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
  - require plans or architectural exhibits; or
- the repair prevents the Borrower from occupying the Property for more than 15 Days during the rehabilitation period.

Additionally, the Limited 203(k) mortgage proceeds **may not** be used to finance the following specific repairs:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished;
- repairing, reconstructing or elevating an existing foundation;
- purchasing an existing Structure on another site and moving it onto a new foundation;
- making structural alterations such as the repair of structural damage and New Construction, including room additions;
- landscaping and site improvements;
- constructing a windstorm shelter;
- making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or
- making recreational or luxury improvements, such as:
  - new swimming pools;
  - an exterior hot tub, spa, whirlpool bath, or sauna;
  - barbecue pits, outdoor fireplaces or hearths;
  - bath houses;
  - tennis courts;
  - satellite dishes;
  - tree surgery (except when eliminating an endangerment to existing improvements);

- photo murals; or
- gazebos.

(C) Limited 203(k) Establishing Repair and Improvement Costs

The Borrower must submit a work plan to the Mortgagee and use one or more contractors to provide the Cost Estimate and complete the required improvements and repairs. The contractors must be licensed and bonded if required by the local jurisdiction. The Borrower must provide the contractors' credentials and bids to the Mortgagee.

The Mortgagee must review the contractors' credentials, work experience and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements. The Mortgagee must examine the work plan and the contractors' bids and determine if they fall within the usual and customary range for similar work.

The Mortgagee may require the Borrower to provide additional Cost Estimates if necessary.

Exception for Borrowers Doing Own Work

For Borrowers performing their own work under a Rehabilitation Self-Help Agreement, the Borrower must submit a work plan detailing the Work Items to be performed by the Borrower and a Cost Estimate from a contractor other than the Borrower that provides a breakdown of the cost for labor and materials for each Work Item. The contractor must be licensed and bonded if required by the local jurisdiction. The Borrower must not be reimbursed for labor costs.

(D) Limited 203(k) Financeable Repair and Improvement Costs and Fees

The following costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees; and
- permits.

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, the Mortgagee must include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation (Self-Help) Loan Agreement.

(E) Limited 203(k) Financeable Contingency Reserves

A Contingency Reserve is not mandated; however, at the Mortgagee's discretion, a Contingency Reserve account may be established and may be financed. The Contingency Reserve account may not exceed 20 percent of the Financeable Repair and Improvement Costs.

The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Limited 203(k) Financeable Mortgage Fees

The Mortgagee may include the following fees and charges in the rehabilitation Cost Estimates.

(1) Origination Fee

The Mortgagee may include a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the Financeable Repair and Improvement Costs and Fees and Financeable Contingency Reserves.

(2) Discount Points

The Mortgagee may include a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by total of Financeable Repair and Improvement Costs and Fees and Financeable Contingency Reserves.

(G) Limited 203(k) Ineligible Fees and Costs

The following fees and costs **may not** be financed under the Limited 203(k):

- Mortgage Payment Reserves
- architectural/engineering professional fees
- 203(k) Consultant fee
- a Feasibility Study

(H) Limited 203(k) Required Documentation

The following documentation is required for the Limited 203(k).

(1) Work Plan

The Mortgagee must obtain a work plan from the Borrower detailing the proposed repairs or improvements. The Borrower may develop the work plan themselves or engage an outside party, including a Contractor or a 203(k) Consultant, to assist. There is no required format for the work plan.

(2) Written Proposal and Cost Estimates

The Mortgagee must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. The Mortgagee must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials.

The Mortgagee must obtain written Cost Estimates for each Work Item, broken down by labor and materials, to be performed by the Borrower under a self-help agreement.

(3) Sales Contract

The Mortgagee must obtain a copy of the sales contract and ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee.

When the Borrower is financing a HUD REO Property, the Mortgagee must ensure that the first block on Line 4 of the form HUD-9548, *Instructions and Sales Contract* is checked, as well as the applicable block for 203(k).

viii. Appraisals for Standard 203(k) and Limited 203(k)

(A) Establishing Value

The Mortgagee must establish both an Adjusted As-Is Value and an After Improved Value of the Property.

(1) Appraisal Reports

An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described below in cases of Property Flipping and refinance transactions, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

(2) Adjusted As-Is Value

The Mortgagee must establish the Adjusted As-Is Value as described below.

(a) Purchase Transactions

For purchase transactions, the Adjusted As-Is Value is the lesser of:

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

The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is performed.

In the case of Property Flipping, the Mortgagee must obtain an as-is appraisal if needed to comply with the Property Flipping guidelines.

(b) Refinance Transactions

(i) Properties Acquired Greater Than or Equal to 12 Months Prior to the Case Assignment Date

The Mortgagee must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items exceeds the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only).

When an appraisal is required, the Adjusted As-Is Value is the As-Is Property Value.

The Mortgagee has the option of using the existing debt or an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees;
- Financeable Contingency Reserves; and
- Financeable Mortgage Payment Reserves (for Standard 203(k) only).

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 Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages.

(ii) Properties Acquired Less Than 12 Months Prior to the Case Assignment Date

For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained.

The Adjusted As-Is Value is the lesser of:
- existing debt plus fees associated with the new Mortgage; or
- the As-Is Property Value.

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 Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- interest due on the existing Mortgage(s);
- MIP due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages.

For properties acquired by the Borrower within 12 months of the case assignment date by inheritance or through a gift from a Family Member, the Mortgagee may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

(3) After Improved Value

To establish the After Improved Value, the Mortgagee must obtain an appraisal of the Property subject to the repairs and improvements.

(B) Documents to be Provided to the Appraiser at Assignment

The Mortgagee must provide the Appraiser with a copy of the Consultant's Work Write-Up and Cost Estimate for a Standard 203(k), or the work plan, contractor's proposal and Cost Estimates for a Limited 203(k).

ix. Maximum Mortgage Amount for Purchase

The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:

- the appropriate Loan-to-Value (LTV) ratio from the Purchase Loan-to-Value Limits, multiplied by the lesser of:
  - the Adjusted As-Is Value, plus:
    - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
    - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
    - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
    - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
  - 110 percent of the After Improved Value (100 percent for condominiums); or
- the Nationwide Mortgage Limits.

For a HUD REO 203(k) purchase, the Mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO Purchase Guidance.

x. Maximum Mortgage Amount for Refinance

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

1. the existing debt and fees associated with the new Mortgage, plus:
   - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
   - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
   - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
   - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
2. the appropriate LTV ratio below, multiplied by the lesser of:
   - the Adjusted As-Is Value, plus:
     - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
     - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);

- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
- Financeable Mortgage Payment Reserves, for Standard 203(k) only); or

- 110 percent of the After Improved Value (100 percent for condominiums); or

3. the Nationwide Mortgage Limits.

(A) Loan-to-Value Ratios for Refinance

The table below describes the relationship between the Borrower's Minimum Decision Credit Score and the LTV ratio for which they are eligible.

If the Borrower's Minimum Decision Credit Score is:	Then the Borrower is:
at or above 580	eligible for maximum financing of 97.75%.
between 500 and 579	limited to a maximum LTV of 90%.

For Secondary Residences, the maximum LTV is 85 percent.

(B) Required Documentation

The Mortgagee must obtain the mortgage payoff statement for existing debt.

For properties acquired less than 12 months prior to the case assignment date, the Mortgagee must document the lowest Acquisition Cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing Acquisition Cost.

If improvements were made to the Property subsequent to the acquisition, the Mortgagee must document the associated cost of the improvements by obtaining the following:

- a contract for completion of work;
- materials cost and paid receipts; and
- permit costs.

xi. Maximum Mortgage Amounts for Energy Efficient Mortgages, Weatherization Items, and Solar Energy Systems

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the $35,000 limit on total rehabilitation cost.

xii. Combined Loan-to-Value

(A) Secondary Financing Provided by Governmental Entities, Homeownership and Opportunity for People Everywhere Grantees, and HUD-Approved Nonprofits

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing meeting the requirements found in Governmental Entities, Homeownership and Opportunity for People Everywhere (HOPE) Grantees, and HUD-Approved Nonprofits.

(B) Secondary Financing Provided by Family Members

There is no maximum CLTV for secondary financing meeting the requirements found in Family Members.

(C) Secondary Financing Provided by Private Individuals and Other Organizations

The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the After Improved Value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum downpayment requirement.

xiii. Mortgage Insurance Premium

The Mortgagee must comply with the MIP requirements found in the MIP Chart.

For the purpose of calculating the LTV for application of the MIP, the Mortgagee must divide the Base Loan Amount by the After Improved Value.

xiv. Underwriting

The Mortgagee must comply with the underwriting requirements found in Origination Through Post-Closing/Endorsement and the additional guidance provided below.

(A) Required Documentation Standard 203(k) and Limited 203(k)

(1) Identity-of-Interest Certification

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

Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction.

Sales transactions between Family Members are permitted. The Mortgagee must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.

If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, the Mortgagee may select the same 203(k) Consultant for the project without creating an Identity of Interest.

(a) Borrower's Certification

The Borrower must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) and (Mortgagee), that I/We ___ do or ___do not have an identity-of-interest with the seller. I/We do not have an identity-of-interest with the 203(k) Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, 203(k) Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company or investment club and I/We ___will or ___will not occupy the residence I/We are purchasing or refinancing."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

_____ _____
Borrower's Signature *Date*

_____ _____
Co-borrower's Signature *Date*

(b) 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or

prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent, appraiser, plan reviewer, contractor, subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

_____ _____

Consultant's Signature *Date*

(2) Borrower Acting as General Contractor or Doing Own Work (Self-Help)

The Mortgagee must document approval for the Borrower to act as the general contractor or to complete their own work.

- The Mortgagee must verify and document that the Borrower is either a licensed general contractor or can document experience in completing rehabilitation projects.
- The Mortgagee must ensure the Borrower demonstrates the necessary expertise and experience to perform the specific repair competently and timely.
- The Mortgagee must instruct the Borrower of the requirement to maintain complete records showing the actual cost of rehabilitation, including paid receipts for materials and Lien Waivers from any subcontractors.
- The Mortgagee must ensure all permits are obtained prior to commencement of work.
- The Mortgagee must obtain Cost Estimates that clearly state the cost for completion of each Work Item, including the cost of labor and materials; however, only materials cost will be reimbursed.
- The Mortgagee must obtain a signed Rehabilitation (Self-Help) Loan Agreement from the Borrower.

(3) Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the Mortgagee must ensure the repairs are included in the Consultant's final Work Write-Up or the Borrower's final work plan.

(4) 203(k) Borrower's Acknowledgment (Form HUD-92700-A)

The Mortgagee must obtain an executed form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

(5) Feasibility Study

If a Feasibility Study was performed to determine if the project is financially feasible, the Mortgagee must obtain a copy of the study.

(6) Borrower Contractor Agreement

The Mortgagee must obtain a written agreement between the Borrower and the general contractor, or if there is no general contractor, for each contractor. The contractor must agree in writing to complete the work for the amount of the Cost Estimate and within the allotted time frame.

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate

The Mortgagee must obtain the final Work Write-Up and Cost Estimate from the Consultant. The final Work Write-Up must include all required repairs and improvements to meet HUD's Minimum Property Standards (MPS) and MPR (as applicable) and the Borrower's electives.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

(2) Architectural Exhibits

The Mortgagee must obtain and review all required architectural exhibits included in the Consultant's final Work Write-Up.

(3) Consultant/Borrower Agreement

The Mortgagee must obtain a written agreement between the Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection," as detailed in the disclosure form HUD-92564-CN, *For Your Protection Get a Home Inspection*.

(C) Required Documentation for Limited 203(k) Only

Contractor's Cost Estimate

The Mortgagee must obtain the final contractor's itemized estimate of the repairs and improvements to be completed for all Work Items.

xv. Closing

(A) Standard

The Mortgagee must comply with requirements found in the Closing section and the additional guidance provided below.

There is only one closing that includes the rehabilitation funds. The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

(1) Establishing the Rehabilitation Escrow Account

(a) Standard 203(k)

The Mortgagee must establish an interest bearing rehabilitation escrow account to include, as applicable:

- Standard 203(k) Financeable Repair and Improvement Costs and Fees;
- Standard 203(k) Financeable Contingency Reserves;
- Standard 203(k) Financeable Mortgage Payment Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(b) Limited 203(k)

The Mortgagee must establish an interest bearing rehabilitation escrow account to include, as applicable:

- Limited 203(k) Financeable Repair and Improvement Costs and Fees;
- Limited 203(k) Financeable Contingency Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(2) Initial Draw at Closing

The Mortgagee must document the amount and purpose of an initial draw at closing on the form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(a) Standard 203(k)

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

- permit fees (the permit must be obtained before work commences);
- prepaid architectural or engineering fees;
- prepaid Consultant fees;
- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.

(b) Limited 203(k)

For Limited 203(k) transactions, Mortgagees may disburse permit fees at closing (the permit must be obtained before work commences).

The Mortgagee may disburse up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

(B) Required Documentation

(1) Rehabilitation Loan Agreement

The Mortgagee and Borrower must execute the Rehabilitation Loan Agreement, which establishes the conditions under which the Mortgagee will disburse the Rehabilitation Escrow Account funds.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

The Mortgagee must review the 203(k) Consultant's Work Write-Up to determine the time frame for completion of repairs not to exceed six months.

(b) Limited 203(k) Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed six months.

(2) Security Instrument and Rehabilitation Loan Rider

If the Mortgage involves releases from the rehabilitation escrow account, the following language must be placed in the security instrument:

"Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this mortgage and made a part hereof."

The Rehabilitation Loan Rider is a required modification to a security instrument.

xvi. Data Delivery

The Mortgagee must submit data to FHAC , when the functionality becomes available, for:

- 203(k) Program Type
- As-Is Property Value;
- Adjusted As-Is Value;
- After Improved Value;
- existing debt on the Property for a refinance;
- the lowest Acquisition Cost of the Property in the past 12 months, plus any documented improvements made subsequent to the purchase (for refinance);
- Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k);
- Financeable Mortgage Payment Reserves, for Standard 203(k) only;
- Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
- cost of EEM or solar energy systems improvements; and
- principal balance of secondary financing provided by private individuals and other organizations.

For applications to be endorsed prior to the availability of data delivery functionality in FHAC, the Mortgagee must detail the data delivery requirements shown above on form HUD-92900-LT, or include the applicable 203(k) Maximum Mortgage Calculation Worksheet.

xvii. Post-Closing and Endorsement

The Mortgagee must comply with requirements in Post-Closing and Endorsement.

203(k) Mortgages are eligible for endorsement after the initial mortgage proceeds are disbursed and a rehabilitation escrow account is established.

(A) Rehabilitation Period

The rehabilitation period starts when the Mortgage is funded.

The rehabilitation period is specified in the Rehabilitation Loan Agreement.

(B) Extension Requests

If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current.

Required Documentation

The Mortgagee must obtain:

- evidence that the Mortgage is current;
- an explanation for the delay from the Borrower, contractor, or Consultant; and
- a new estimated completion date.

(C) Failure to Start or Complete Work

As stated in the Rehabilitation Loan Agreement, the Mortgagee may consider the Mortgage to be in default if work:

- has not started within 30 Days of the Disbursement Date;
- ceases for more than 30 consecutive Days; or
- has not been completed within the established time frame, or an extended time frame approved by the Mortgagee.

If the Mortgagee considers the Mortgage to be in default for failure to start or complete work, and the Mortgage is not in payment default, the Mortgagee must apply any unused rehabilitation funds towards the principal amount.

xviii. Rehabilitation Escrow Account

When the Mortgage closes, the Mortgagee must place all proceeds designated for the rehabilitation, including the Contingency Reserve, inspection fees and any Mortgage Payments, in an interest bearing escrow account.

- The Mortgagee must pay the net income earned by the rehabilitation escrow account to the Borrower through an agreed upon method of payment.
- The Mortgagee may allow net income to accumulate and be paid in one lump sum after completion of the rehabilitation.
- The Mortgagee that is the custodian of the repair escrow funds is responsible for ensuring all funds from the escrow account are properly distributed.

(A) Accounting of 203(k) Rehabilitation Funds

The Mortgagee must utilize an accounting system that records all transactions from the rehabilitation escrow account and which documents the amount escrowed for each of these categories:

- repairs
- Contingency Reserve
- inspection fees
- title update fees
- Mortgage Payments
- other fees (i.e., architectural and engineering fees, Consultant fees, permits, supplemental origination fee and discount points on repair costs)

The accounting system must provide:

- the Borrower's name and property address
- the FHA case number
- the closing date
- the scheduled completion date
- the amount of funds in the rehabilitation escrow account
- the interest rate provided on the escrow account

For each draw on the escrow account, the accounting system must record:

- a list of Disbursements
- the number of Days in escrow
- the amount of money in the account
- the interest earned for the applicable time period
- the balance of interest remaining in the account

(B) Project Management

Mortgagees must ensure work is completed on schedule and workmanship is acceptable.

When notified of an issue, Mortgagees must intercede in disagreements among Borrowers, contractors, or Consultants.

(1) Health and Safety

The Mortgagee must ensure that all health and safety items not in the original Work Write-Up or work plan that are discovered during the rehabilitation period are addressed by completion of a change order.

(2) Change Order Request

The Mortgagee must obtain form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, from the Consultant or

inspector if there are any deviations from the Work Write-Up. The Mortgagee must approve the change order before any work can be done.

(C) Escrow Administration

The Mortgagee is fully responsible for authorizing draw inspections, managing the rehabilitation escrow account, and approving the associated draws from the account.

It is the Mortgagee's responsibility to ensure that any inspections are completed in a quality and timely manner, regardless of who performs the inspections.

(1) Release of Funds

The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all federal, state, and local laws, codes and ordinances, including any required permits and inspections.

The Mortgagee may release funds for lead-based paint stabilization only when a state- or EPA-certified lead-based paint inspector, certified risk assessor or sampling technician, independent of the firm that performed the stabilization, performs the clearance examination and clearance is obtained.

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

The Mortgagee must obtain Lien Waivers, or equivalent, at the time of any Disbursement of funds to ensure the validity of the first lien on the Property. If all Work Items performed by a contractor have not been completed at the time of draw request, the Mortgagee must obtain a partial conditional Lien Waiver for the Work Items that have been completed for each draw request.

For repairs made by the Borrower under a self-help agreement, the Mortgagee is permitted to release funds for materials only.

When the Rehabilitation Escrow Account includes Mortgage Payment Reserves, the Mortgagee must make monthly Mortgage Payments directly from the interest bearing reserve account. Once the Property is able to be occupied, application of the Mortgage Payment Reserves will cease. Mortgage Payment Reserves remaining in the reserve account after occupancy of the Property must be used to reduce the mortgage principal.

(a) Draw Request

The Mortgagee must obtain an executed form HUD-9746-A, *Draw Request Section 203(k)*, from the 203(k) Consultant, or from the Borrower when there is no 203(k) Consultant, requesting the release of escrow funds for completed Work Items.

The Mortgagee must review and approve each draw request to ensure that the work for which funds are being requested has been completed satisfactorily and that the form has been properly executed by the Borrower, contractor and Consultant, if any.

The Mortgagee may not approve a draw request for work that is not yet complete.

The Mortgagee may not approve draw requests for materials for work that is not completed, except for:

- materials costs for items prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

(b) Change Orders

Work must be 100 percent complete on each change order item before the release of funds for the Work Items from the rehabilitation escrow account.

(c) Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the rehabilitation escrow account.

Exception

When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

(d) Timeliness of Release

The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

(i) Standard 203(k) Release of Funds

Maximum Draw Requests

The Mortgagee may approve a maximum of five draw requests (four intermediate and one final).

Contingency Reserve

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered, and that the Mortgage will not exceed 95 percent of the appraised value.

When the rehabilitation is complete, the Borrower may use the Contingency Reserve account to fund additional improvements not included in the original Work Write-Up.

The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the Contingency Reserve account for additional improvements within five business days.

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the Work Write-Up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, unless the Borrower provides written authorization, at each draw, to issue the check directly to the contractor.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(ii) Limited 203(k) Release of Funds

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of two draw requests per contractor or the Borrower (if acting as the contractor).

When necessary, the Mortgagee may arrange a payment schedule, not to exceed two releases, per specialized contractor (an initial release plus a final release).

Total Repair Costs Less Than or Equal to $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed Borrower's Letter of Completion. The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Total Repair Costs Exceeding $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been satisfactorily completed. The Mortgagee must obtain a signed Borrower's Letter of Completion.

Contingency Reserve

The Mortgagee must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issue checks solely to the contractor, or issue checks to the Borrower and the contractor as co-payees.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(2) Final Escrow Closeout

The Mortgagee must include the interest earned in the final payment on the rehabilitation escrow account and may include the total of all holdbacks. However, if it is required to protect the priority of the security instrument, the Mortgagee may retain the holdback for a period not to exceed 35 Days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state Lien Waiver laws or other state requirements.

(a) Standard

(i) Standard 203(k)

Before final release of rehabilitation escrow funds, the Mortgagee must approve the final inspection and draw request signed by the Consultant, contractor, and Borrower.

(ii) Limited 203(k)

Before a final release is made to any contractor, the Mortgagee must determine that all work by the contractor has been completed, is acceptable by the Borrower, and all necessary inspections have been made with acceptable documentation.

(b) Required Documentation for both Standard 203(k) and Limited 203(k)

The Mortgagee must:

- obtain the Borrower's Letter of Completion signed by the Borrower indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
- obtain a CO, or equivalent, if required by the local jurisdiction;
- obtain all inspections required by the local jurisdiction;
- complete the Final Release Notice authorizing the final payment;
- provide the Mortgagee's extension approval if applicable; and
- obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

(3) Contingency Release

The Mortgagee must inform the Borrower of its approval or rejection of the Borrower's request for funds to be made available from the Contingency Reserve account for the purpose of improvements.

A Borrower who established the Contingency Funds with their own funds may receive a refund of their funds, or may request the remaining funds be applied towards the principal balance.

For Standard 203(k), the Mortgagee must either make funds available for additional improvements or apply the funds towards the principal balance if the Contingency Reserve was financed.

For Limited 203(k), the Mortgagee must apply the funds towards the principal balance if the Contingency Reserve was financed.

(4) Mortgage Payment Reserve

Mortgage Payment Reserves remaining in the reserve account after the Final Release Notice is issued must be used to reduce the mortgage principal.

(5) Electronic Closeout

(a) Standard

After the rehabilitation escrow account is closed, the Mortgagee must complete the "Escrow Closeout Certification" screen in FHAC within 30 Days after the escrow account is closed.

(b) Required Documentation

The Mortgagee must certify that the following documents were reviewed and verified for accuracy:

- Final Release Notice
- Borrower's Letter of Completion
- title update/Lien Waivers
- draw request forms and inspection reports
- change orders
- Mortgagee accounting of the rehabilitation escrow account and payment ledgers
- contingency release letters

xix. Quality Control

HUD will hold Mortgagees and 203(k) Consultants fully accountable for the mortgage proceeds.

Mortgagees must exercise due diligence with regard to the full scope of the 203(k) Consultant's services. Standards for the 203(k) Consultant's performance must be clearly defined in the Mortgagee's Quality Control Plan and should be provided to each Consultant that the Mortgagee relies on in the 203(k) program. Mortgagees must evaluate

and document the performance of these Consultants on at least an annual basis, to include a review of the Consultant's actual work product.

xx. Servicing

(A) Delinquencies

If the Mortgage is delinquent, the Mortgagee may refuse to make further releases from the rehabilitation escrow account.

(B) Payment Default

The project must stop if the Mortgage is in payment default. The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

The inspection obtained by the Mortgagee must also note any items that are required to be completed to protect the interest of the collateral from deteriorating, such as a roof, and health and safety items for a Property that is occupied. The Mortgagee must ensure the completion of any Work Item that the inspection determines is necessary to protect the occupants and/or the collateral. The Mortgagee may use the services of the mortgagor’s contractor, if appropriate, or may engage the services of another qualified contractor to complete the Work Item. The Mortgagee may approve a subsequent release of funds for that Work Item.

The Mortgagee has the option to call the Mortgage due and payable.

If the default is cured, the project may resume.

(C) Bankruptcy

The Mortgagee may not approve further advances if the Borrower declares bankruptcy unless otherwise required by law or as needed to protect FHA’s first lien position. The Mortgagee must obtain an inspection of all repairs that have been completed by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

(D) Foreclosure of Mortgage during Rehabilitation Period

In the event of a foreclosure during rehabilitation, the Mortgagee must obtain a final inspection to determine the amount of work that has been completed since the start of construction and the cost for the work.

Using a format similar to the Final Release Notice, the Mortgagee will authorize release of rehabilitation escrow funds for the completed work and holdbacks on any previous Disbursements.

If funds remain in the rehabilitation escrow account, the Mortgagee will reduce the amount of claim (unpaid mortgage principal balance) by the unexpended funds in the rehabilitation escrow account.

The Mortgagee must submit a copy of the Final Release Notice with any insurance claim.

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 date the PDMDA is declared, 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 Adjusted Value. If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

(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.

(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.

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).

(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.

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

calculation of Maximum Financeable Energy Package. The EEM Calculator uses data entered for the Mortgage to calculate the maximum energy package.

For a Streamline 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.

(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).

(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 Disbursement. 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.

(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.

(C) General Property Eligibility

For a transaction involving a Manufactured Home to be considered a refinance, the Manufactured Home must have been permanently erected on a site for more than twelve months prior to case number assignment.

(D) General Mortgage Eligibility

(1) Standard

For cases endorsed on or before September 30, 2015, the Mortgagee must not approve any Mortgage that refinances or otherwise replaces a Mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state.

(2) Required Documentation

If the Mortgage to be insured is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a Mortgage, the Mortgagee must obtain a certification from the Borrower stating the Mortgage being refinanced was not subject to eminent domain condemnation or seizure.

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												
	Month of Year											
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.

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 number 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.

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 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 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:
    - 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
- LTV Limitations Based on Borrower's Credit Score
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard
- Credit Requirements (Manual)
- Income Requirements (Manual)
- Asset Requirements (Manual)
- Underwriting of Credit and Debt (Manual)
- Underwriting of Income (Manual)
- Underwriting of Assets (Manual)
- Calculating Qualifying Ratios (Manual)
- Approvable Ratio Requirements (Manual)
- Documenting Acceptable Compensating Factors (Manual)

(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
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- LTV Limitations Based on Borrower's Credit Score
- 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 closing 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.

(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.

	To		
From	**Fixed Rate New Combined Rate**	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Fixed Rate	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.

	To		
From	**Fixed Rate New Combined Rate**	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Any ARM With Less Than 15 Months to Next Payment Change Date	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.
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	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

The net tangible benefit test is met if:

- the mortgage term is reduced;
- the new interest rate does not exceed the current interest rate; and
- the combined principal, interest and MIP payment of the new Mortgage does not exceed the combined principal, interest and MIP of the refinanced Mortgage by more than $50.

(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:

- 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. The receipt or possession of an appraisal by the Mortgagee does not affect the eligibility or maximum mortgage amount 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 new Mortgage 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.

(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.

e. Refinance of Borrowers in Negative Equity Positions Program (Short Refi)

i. Definition

For case numbers assigned on or before December 31, 2016, 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.

There is no maximum CLTV ratio for second liens held by Governmental Entities or Instrumentalities of Government.

(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.

(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

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.

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:

If the ARM is initially at a fixed interest rate for ...	Then the first adjustment rate change may occur no sooner than ...	And no later than ...
1 year	12 months	18 months.
3 years	36 months	42 months.
5 years	60 months	66 months.
7 years	84 months	90 months.
10 years	120 months	126 months.

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).

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 Note contains amortization provisions that allow for annual adjustments in the rate of interest charged.

(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.

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.

(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 and Mortgage

The model Lease and model Mortgage Rider 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.

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.

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).

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 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.

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.

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:

- the 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);
- 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.

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, unless the Property is located in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list:
  - 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 for Maximum Financing.

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 the Property is 100 percent complete;
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list:
  - 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.

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 the Appraiser 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) Environmental

The Mortgagee must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the Property's ability to serve as collateral, or the structural soundness of the improvements.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

(6) Individual Water Supply Systems (Wells)

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.

The following tables provide the minimum distance required between wells and sources of pollution:

	Water Well location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

	Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(7) 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 Systems 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.

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.

If the Property being constructed is Manufactured Housing, the builder's price to build shall include the sum of the cost of the unit(s) and all on-site installation costs.

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).

(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. Required Documentation 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 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. Required Documentation 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.

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 from case number assignment.

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.

If the Property being constructed is Manufactured Housing, the builder's price to build shall include the sum of the cost of the unit(s) and all on-site installation costs.

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.

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.

l. 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

- 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 of the energy-related weatherization items may be added to both the sales price and the Property 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 weatherization improvements are escrowed, the Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for weatherization improvements has been established.

ii. Completion Requirements for Weatherization Measures

(A) Time of Completion

Installation of weatherization improvements must be completed within:

- 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.

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.

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.

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 Disbursement.

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, subject to the restrictions on LTV ratio for Investment Properties and HUD-approved Secondary Residences.

(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 Mortgagee 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.

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.

o. HUD REO Purchasing

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to HUD REO Purchasing in FHA programs.

9. 203(k) Consultant Requirements

a. Overview

A Federal Housing Administration (FHA)-approved 203(k) Consultant is required for all Standard 203(k) Mortgages and may be used for Limited 203(k) Mortgages. Any Consultant who performs work on a 203(k) must be listed on the FHA 203(k) Consultant Roster. The Consultant inspects the Property and prepares the architectural exhibits, the Work Write-Up and Cost Estimate.

For information on how to become an approved 203(k) Consultant, refer to Doing Business with FHA.

b. Consultant Duties

The Consultant must perform the following duties in accordance with the requirements set forth below.

i. Feasibility Study

If requested by the Borrower or Mortgagee to determine if a project is financially feasible, the Consultant must prepare a Feasibility Study.

ii. Consultant Inspection

The Consultant must inspect the Property to ensure:

- there are no rodents, dry rot, termites and other infestation on the Property;
- there are no defects that will affect the health and safety of the occupants;
- there exists adequate structural, heating, plumbing, electrical and roofing systems; and
- there are upgrades to the Structure's thermal protection (when necessary).

The Consultant must prepare a report on the current condition of the Property that categorically examines the Structure utilizing the 35 point checklist. The report must address any deficiencies that exist and certify the condition of all major systems: electrical, plumbing, heating, roofing and structural.

The Consultant must determine the repairs/improvements that are required to meet the U.S. Department of Housing and Urban Development (HUD)'s Minimum Property Requirements (MPR), Minimum Property Standards (MPS) and local requirements.

iii. Architectural Exhibits

The Consultant is responsible for identifying all required architectural exhibits. The Consultant must prepare the exhibits, or, if not qualified to prepare all of the necessary exhibits, must obtain the exhibits from a qualified subcontractor.

iv. Work Write-Up and Cost Estimate

The Consultant must prepare an unbiased Work Write-Up and Cost Estimate without the use of the contractor's estimate. The Work Write-Up and Cost Estimate must be detailed as to work being performed per the project proposal, including the necessary reports described in the Architectural Exhibit Review section.

v. Draw Request Inspection

The Consultant must inspect the work for completion and quality of workmanship at each draw request.

vi. Change Order

At the Borrower's or Mortgagee's request, the Consultant must review the proposed changes to the Work Write-Up and prepare a change order.

vii. Work Stoppages or Deviations from the Approved Write-Up

The Consultant must inform the Mortgagee of the progress of the rehabilitation and of any problems that arise, including:

- work stoppages of more than 30 consecutive Days or work not progressing reasonably during the rehabilitation period;
- significant deviations from the Work Write-Up without the Consultant's approval;
- any issues that could affect adherence to the program requirements or property eligibility; or
- any issues that could affect the health and safety of the occupants or the security of the Structure.

c. Consultant Fee Schedule

Below are the maximum fees that may be charged by the Consultant.

i. Feasibility Study

If requested by the Borrower or Mortgagee to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of $100 for the preparation of a Feasibility Study.

ii. Work Write-up

The Consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- $400 for repairs less than $7,500
- $500 for repairs between $7,501 and $15,000
- $600 for repairs between $15,001 and $30,000
- $700 for repairs between $30,001 and $50,000

- $800 for repairs between $50,001 and $75,000
- $900 for repairs between $75,001 and $100,000
- $1,000 for repairs over $100,000

The Consultant may charge an additional $25 per additional Dwelling Unit.

iii. Draw Inspection Fee

The Consultant may charge $100 per draw request.

iv. Change Order Fee

The Consultant may charge $100 per change order request.

v. Re-inspection Fee

The Consultant may charge a $50 fee when re-inspection of a Work Item is requested by the Borrower or Mortgagee.

vi. Mileage Fee

The Consultant may charge a mileage fee at the current Internal Revenue Service (IRS) mileage rate when the Consultant's place of business is more than 15 miles from the Property.

d. Improvements Standards

i. General Improvement Standards

The Consultant must ensure that the Property will comply with HUD's MPR or HUD's MPS after the improvements have been completed.

ii. Improvement Standards for Storm Shelters

When a storm shelter is part of the rehabilitation, the Consultant must ensure that its construction is consistent with guidelines issued by the Federal Emergency Management Agency (FEMA).

iii. Foundation Standards

(A) Existing Structure Moved to a New Foundation

Prior to placement of the existing Structure on the new foundation, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the Structure.

After placement of the existing Structure on the new foundation, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the Structure has been properly placed and secured to the new foundation.

(B) Structure is Reconstructed on the Existing Foundation

Prior to reconstruction of the Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the Proposed Construction of the Structure.

(C) Existing Structure will be Elevated

Prior to elevation of the existing Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the foundation is structurally sound and capable of supporting the Structure.

After elevation of the existing Structure, the Consultant must obtain from the Borrower a report from a licensed structural engineer stating that the Structure has been properly placed and secured to the new foundation.

e. Consultant 35 Point Checklist

The Consultant must inspect the Property and address the following 35 points, if applicable, in the Work Write-Up and Cost Estimate:

1. **Masonry**. Describe masonry work to be performed, such as: point brickwork; stucco; construction of brick walls; construction/repair of brick, masonry or stone chimney; etc. Most estimates must be based on square footage projections.

2. **Siding**. Describe siding work to be performed, such as: replacement of defective siding, fascia and soffits; installation of new vinyl siding with aluminum window trim; etc. Most estimates must be based on square footage, lineal footage and length projections.

3. **Gutters and Downspouts**. Describe gutter and downspout work to be performed, such as: replacement of bad or missing gutters and downspouts; cleaning and opening downspouts; installation of splash block; etc. Most estimates must be based on lineal footage projections.

4. **Roof**. Describe roof work to be performed, such as: installation of a new built-up roof, with new metal gravel stops; installation of 240 Sealtab asphalt shingles on all roofs with a 3:12 pitch or greater; etc. Roofs that already have two layers of shingles should not be roofed again. Remove the existing shingles, then roof with new shingles. Most estimates must be based on square footage projections.

5. **Shutters**. Describe shutter work to be performed, such as: installation of shutters at windows; etc. Most estimates must be based on pair pricing.

6. **Exteriors**. Describe exterior work to be performed, such as: removal of defective, buckled wood members; providing a structurally sound porch floor, properly finished; replacement of existing porch with masonry steps and stoops; providing ornamental iron or wood railing or parts; etc. Most estimates must be based on lineal or square footage projections.

7. **Walks**. Describe walk work to be performed, such as: installation of new concrete walks; installation of concrete steps at (____); etc. Most estimates must be based on square and lineal footage projections.

8. **Driveways**. Describe driveway work to be performed, such as: remove old driveway and apron; install blacktop asphalt drive (minimum two feet) over existing drive and apron; install new concrete driveway (minimum four feet) and apron with wire mesh; etc. Most estimates must be based on square and lineal footage projections.

9. **Painting (Exterior)**. Describe exterior painting work to be performed, such as: scrape, sand smooth and paint a minimum of two coats of good quality paint on all exterior woodwork and metal; etc. Most estimates must be based on square and lineal footage projections. If the Property was built before 1978, a U.S. Environmental Protection Agency (EPA) or state-certified lead-safe renovation contractor must be used for the painting work; machine sanding and use of propane or gasoline torches (open-flame methods) are not permitted, and just washing and repainting without thorough removal or covering with siding does not constitute adequate treatment.

   Required Work Items: All defective (cracking, scaling, chipping, peeling, loose, or flaking paint and paint that is to be disturbed by this Painting (Exterior) point or other points in the Work Write-Up must be scraped, primed and double coated. Because of the concern for lead paint ingestion, all peeling paint conditions must include scraping, priming and double coating of surface areas. If the Property was built before 1978, paint mitigation must be in compliance with EPA's Renovation, Repair, and Painting Rule and HUD's lead-based paint regulations regarding paint mitigation at 24 CFR 200.810(c). Some states may require more specific treatment.

10. **Caulking**. Describe caulking to be performed, such as: caulk all windows and door frames; etc. Most estimates must be based on lineal footage or lump sum projections.

    Required Work Item: Caulk all openings, cracks or joints in the building envelope to reduce air infiltration.

11. **Fencing**. Describe fencing work to be performed, such as: installation of new fencing; resetting existing fencing; etc. Most estimates must be based on lineal footage projections.

12. **Grading**. Describe grading work to be performed, such as: removal of debris from yards; application of finish earth; grade and seed; etc. Most estimates must be based on square yard and lump sum projections.

13. **Windows**. Describe window work to be performed, such as: installation of new metal replacement windows; replacement of rotted or defective sash; replacement of rotted sills at exterior; replacement of basement windows; replacement of cracked/broken glass; replacement of missing glazing putty; repair or replacement of screens; etc. If a particular manufactured window is used, then the Work Write-Up should specify to justify the cost of the windows. Most estimates must be based on per window projections.

14. **Weather-stripping**. Describe weather-stripping to be performed, such as: installation of new weather-stripping at all exterior doors; weather-strip all windows; install metal interlocking thresholds at exterior doors; etc. Most estimates must be based on per unit and linear footage projections.

    Required Work Item: Weather-strip all doors and windows in living areas to reduce infiltration of air when existing weather-stripping is inadequate or nonexistent.

15. **Doors (Exterior)**. Describe door work to be performed, such as: install new 1 3/4" exterior solid core wood door(s); install 1 3/4" metal insulated door; install three new door butts; install new exterior door trim; install new lockset with deadbolt; etc. Most estimates must be based on per unit and linear footage projections. Address weather-stripping and caulking of all replacement doors and trim.

16. **Doors (Interior)**. Describe interior door work to be performed, such as: replacement of defective doors; installation of new doors with locksets; installation of locksets where missing or malfunctioning; readjusting all doors for proper closing; installation of bedroom closet doors; installation of bi-fold doors at (____); installation of door trim at (____); etc. Most estimates must be based on per unit projections.

17. **Partitions** (Do not include drywall costs). Describe partitioning work to be performed, such as: framing of new walls and partitions; framing for new closet; etc. Most estimates must be based on lineal or square footage projections.

18. **Plaster/Drywall**. Describe plaster and drywall work to be performed, such as: patch all defective plaster/drywall; finish smooth with existing wall/ceiling finish; install drywall at (____); etc. Most estimates must be based on lump sum and square footage projections.

19. **Decorating**. Describe painting work to be performed, such as: paint interior walls; remove all existing wallpaper at (____); wallpaper walls at (____);treat defective (cracking, scaling, chipping, peeling, loose, or flaking) paint and paint that is to be disturbed by this Decorating point or other points in the Work Write-Up, and refinish surfaces at (____); etc. Most estimates must be based on square and lineal footage projections.

    Required Work Items: All defective (cracking, scaling, chipping, peeling, loose, or flaking) paint and paint to be disturbed by this Decorating point or other points in the Work Write-Up must be scraped, primed and double coated. Because of the concern

for lead paint ingestion, all peeling paint conditions must include scraping, priming and double coating of surface areas. If the Property was built before 1978, paint mitigation must be in compliance with EPA's Renovation, Repair, and Painting Rule and HUD's lead-based paint regulations regarding paint mitigation at 24 CFR 200.810(c). Some states may require more specific treatment.

20. **Wood Trim**. Describe wood trim work to be performed, such as: replace all cracked, broken, mismatched trim, jambs, etc.; remove all unused hinges, curtain rod hangers, nails, screws, etc.; replace all wood trim at interior door units, base, shoe & other trim; replace defective wall paneling at (____); etc. Most estimates must be based on square and lineal footage, per unit, and lump sum projections.

21. **Stairs**. Describe stair work to be performed, such as: replace bad basement treads and risers; replace main stairs, treads and risers; replace broken and/or missing baluster; provide handrails; install new stairs at (____); etc. Most estimates must be based on lump sum and lineal footage projections.

22. **Closets**. Describe closet work to be performed, such as: install new shelves, clothing rods; etc. Most estimates must be based on lineal footage projections.

23. **Wood Floors**. Describe wood floor work to be performed, such as: replace all defective flooring, holes in floors, etc., with wood flooring to match existing floors; sand, fill and refinish wood floors; install new hardwood floors at (____); etc. Most estimates must be based on square footage projections.

24. **Finish Floors**. Describe finish floor work to be performed, such as: install vinyl tile or sheet goods with 1/4" underlayment at (____); install carpet and pad at (____); etc. Specify nonstandard type flooring to justify the cost estimate. Most estimates must be based on square yard projections.

25. **Ceramic Tile**. Describe ceramic tile work to be performed, such as: install ceramic tile wainscot in bathtub area for shower height; install ceramic tile floor at (____); install Marlite wainscot in bathtub area for shower height; replace defective tile in bath; replace defective tile in kitchen; etc. Most estimates must be based on square footage or lump sum projections.

26. **Bath Accessories**. Describe bath accessory work to be performed, such as: replace medicine cabinet in bath; install towel bar(s); install soap dish; install grab bar in tub/shower; etc. Most estimates must be based on per unit projections.

27. **Plumbing**. Describe plumbing work to be performed, such as: install new hot and cold water piping; install 30 gallon (minimum) glass-lined gas hot water heater (52 gallon if electric); install new kitchen stainless steel sink; install three-piece bathroom with shower over tub; install laundry tray with faucet; replace washers at faucets; replace defective sewer lines; connect to public sewer line; replace defective faucet at (____); etc. Most estimates must be based on per unit, lump sum and lineal footage projections.

Required Work Item: When feasible, connect to public sewer system where available.

28. **Electrical**. Describe electrical work to be performed, such as: install 100 amp service; replace frayed exterior wire from service to main and into exterior panel box; install new ceiling light wall switches; install new lighting fixtures at (____); install new exterior lighting; replace wall receptacles; install three-way switch; install smoke detectors; install exterior wall exhaust fan(s); etc. Most estimates must be based on per unit and lump sum projections.

    Required Work Items: The amp service must be upgraded to the greater of 100 amp or local code. Each sleeping area must be provided with a minimum of one approved, listed and labeled smoke detector installed adjacent to the sleeping area. Smoke detectors may be battery powered when installed in existing or rehabilitated Structures. However, where new construction is being added to an existing building, the smoke detector must receive its primary power from the building wiring, in conformance to local codes and ordinances.

29. **Heating**. Describe heating and air conditioning work to be performed, such as: install new forced warm air heater; install new hot water boiler; install automatic flow control valve; install temp control valve at boiler; install heat supply outlet in each room; install high performance items such as geothermal heating and cooling, wind energy systems or photovoltaic systems; etc. Most estimates must be based on per unit and lump sum projections.

    Required Work Items: If a new heating/cooling system is proposed, the Consultant must ensure that the contractor properly sizes the system. New heating systems, burners and air conditioning systems must be no greater than 15 percent oversized, except to satisfy the manufacturer's next closest nominal size.

30. **Insulation**. Describe insulation work to be performed, such as: install insulation in crawl space, (R-_____); install insulation batts in attic, (R- _____); install insulation batts in exterior walls, (R-____); etc. Most estimates must be based on square footage projections.

    Required improvements:
    - Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation.
    - Insulate ceiling areas where necessary.
    - Replacement heating, ventilating, and air conditioning systems supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces.

31. **Cabinetry**. Describe cabinetry work to be performed, such as: install new base cabinets at (____); install new kitchen countertop; install new vanity at (____); replace vanity countertop at (____); etc. It may be necessary to provide cabinet

elevations to show proper placement of cabinets. Most estimates must be based on lump sum and linear footage projections.

32. **Appliances**. Describe new appliances to be installed, such as: install new range at (____); install new refrigerator at (____); install new dishwasher at (____); etc. Most estimates will involve per unit projections.

    Required Work Item: Appliances must be new to be included in the Mortgage. The Borrower may provide used appliances; however, the cost cannot be included in the Mortgage.

33. **Basements**. Describe basement work to be performed, such as: install minimum three feet thick concrete floor; cement parge basement walls; provide dry basement; install new sump pump; replace termite (or other wood-boring insect) damaged joists; etc. Most estimates must be based on lump sum, per unit, and square footage projections.

34. **Cleanup**. Describe cleanup work to be performed, such as: remove debris from property exterior; remove debris from property interior; broom clean all floors, clean all windows; clean all plumbing fixtures and appliances; rental for dumpster; etc. Most estimates must be based on lump sum projections.

35. **Miscellaneous**. Describe any other work to be performed, such as: demolition of existing house or garage; repair of detached outbuildings; move existing house onto mortgaged lot; installation of new foundation; landscaping; repair of swimming pools; etc.

f. Architectural Exhibit Review

The Consultant must prepare or obtain and review all applicable architectural exhibits. Architectural exhibits may include, but are not limited to, the following:

- well certification;
- septic certification;
- termite report (including all outbuildings);
- proposed plot plans for new additions;
- foundation certification by a licensed structural engineer if:
  - the existing Structure will be moved to a new foundation;
  - the Structure is being reconstructed on the existing foundation; or
  - the existing Structure will be elevated.
- cabinetry plans and elevations;
- New Construction exhibits to obtain a building permit for an addition;
- grading and drainage plans; or
- engineering and soil/geotechnical reports.

g. Preparing the Work Write-Up and Cost Estimate

The Consultant must prepare a Work Write-Up that identifies each Work Item. The Work Write-Up must be prepared in a categorical manner that addresses each of the 35 point checklist items. The Consultant must indicate which Work Items require permits.

The Consultant must also prepare a Cost Estimate for each Work Item in the Work Write-Up. The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item. Work Item refers to a specific repair or improvement that will be performed. The Consultant must use Cost Estimates that are reasonable for the area in which the Property is located. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

i. Conformance with Minimum Property Requirements or Minimum Property Standards

The Work Write-Up must specifically identify whether the Work Item is required to meet MPS or MPR, will involve structural changes, or is a Borrower-elective.

ii. Health and Safety

The Consultant must ensure that all health and safety concerns and any appraiser requirements are addressed in the Work Write-Up before the addition of any other Work Items.

h. Feasibility Study

If requested by the Borrower or Mortgagee, the Consultant must perform a Feasibility Study that consists of a preliminary inspection of the Property and an estimate of the materials and cost for the work that will be necessary to comply with HUD requirements.

i. Draw Request Inspection

The Consultant must perform draw request inspections when requested by the Mortgagee. The Consultant must ensure that all building permits are onsite for the work that was performed. The Consultant must ensure that the work:

- has been completed satisfactorily; and
- conforms to all local codes and ordinances.

j. Change Order

When requested by the Mortgagee or the Borrower, the Consultant must review the proposed changes or additions to the Work Write-Up. The Consultant must evaluate any costs and adjust other Work Items, if necessary, to complete the change order. The Consultant must provide all costs for labor and materials as a result of the change order on form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*. The proposed work per the change order is not permissible to proceed until approved by the Mortgagee.

k. Additional Required Documentation

The Consultant must provide the Mortgagee with the following documentation.

i. 203(k) Consultant's Certification

All Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent appraiser, plan reviewer, contractor, or subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

_____

Consultant's Signature *Date*

ii. Consultant/Borrower Agreement

The Consultant and Borrower must sign a written agreement that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection" as detailed in the disclosure form HUD-92564-CN, *For Your Protection: Get a Home Inspection*.

iii. Inspections and Draw Requests

(A) Draw Request Form

At each draw inspection, the Consultant must complete form HUD-9746-A, *Draw Request Section 203(k),* to indicate completion of the repairs in compliance with the Work Write-Up and architectural exhibits. The Consultant must ensure all repairs meet all local codes and ordinances, including any required permits and inspections. The Consultant must ensure that both the Borrower and the contractor sign the form to certify that the work has been completed in a workmanlike manner before authorizing payments.

Generally, a release of funds may not be requested for materials that have been paid for but not yet installed.

(B) Exception

The Consultant may request a release of funds for:

- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; or
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

To request release of funds for these items, the Consultant must provide the Mortgagee with a copy of the contract and order with the draw request.

iv. Change Order Requests

The Consultant must complete a change order request on form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications,* for contingency items and other changes that may increase or decrease the cost of rehabilitation or the value of the Property.

Work must be 100 percent complete on each change order item before the Consultant may authorize release of funds for the work noted on the change order. The Consultant must ensure that all repairs meet all local codes and ordinances, including any required permits and inspections.

B. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES

The appraisal process provides the Mortgagee with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA-insured Mortgage. Mortgagees bear primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

Property refers to the real estate entity that will serve as adequate security for a specific FHA-insured Mortgage.

The requirements in this section of the *FHA Single Family Housing Policy Handbook (SF Handbook*) contain the Property Acceptability Criteria for FHA mortgage insurance, which include Minimum Property Requirements (MPR) and Minimum Property Standards (MPS), and include by reference, associated rules and regulations. The criteria apply to residential Properties containing one- to four-family housing units, individual condominium units, and Manufactured Housing units, and related property improvements and the sites on which they are located, as well as the immediate environment for the dwelling, including streets and other services or facilities associated with the site. Manufactured Housing Properties have additional requirements contained in the Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages section. This section also provides requirements for Appraisers in establishing a credible appraised value for a Property that is to serve as security for an FHA-insured Mortgage.

1. Commencement of the Appraisal

a. Information Required before Commencement of Appraisal

The Appraiser must obtain all of the following from the Mortgagee before beginning an appraisal:

- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
- any other legal documents contained in the loan file; and
- a point of contact and contact information for the Mortgagee so that the Appraiser can communicate any noncompliance issues.

b. Additional Information Required Before Commencement of an Appraisal on New Construction

The Appraiser must obtain, from the Mortgagee, a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to the date of the appraisal order and documents related to New Construction, including plans,

specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished

2. General Appraiser Requirements

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages.

When performing an appraisal, the Appraiser must review and analyze the following:

- the land lease, if applicable;
- surveys or legal descriptions, if available; and
- any other legal documents contained in the loan file,

and report the results of that analysis in the appraisal report.

Sales Transaction or New Construction

When performing an appraisal for a sales transaction or on New Construction, the Appraiser must also review and analyze the following:

- the complete copy of the executed sales contract for the subject; and
- documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished;

and report the results of that analysis in the appraisal report.

3. Acceptable Appraisal Reporting Forms and Protocols

The Appraiser must complete the Fannie Mae Form 1004 MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report,* for every appraisal. Other forms to be used in the completion of an FHA appraisal are as follows:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*; Mortgage Industry Standards Maintenance Organization (MISMO) 2.6 Government-Sponsored Enterprise (GSE) format
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report;* MISMO 2.6 GSE format
Manufactured (HUD Code) Housing	Fannie Mae Form 1004C/Freddie Mac Form 70B, *Manufactured Home Appraisal Report;* MISMO 2.6 Errata 1 format
Small Residential Income Properties (Two to Four Units)	Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report;* MISMO 2.6 Errata 1 format

Property/Assignment Type	Acceptable Reporting Form
Update of Appraisal (All Property Types)	Summary Appraisal Update Report Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report;* MISMO 2.6 Errata 1 format
Compliance or Final Inspection for New Construction or Manufactured Housing	Form HUD-92051, *Compliance Inspection Report,* in Portable Document Format (PDF)
Compliance or Final Inspection for Existing Property	Certification of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report;* MISMO 2.6 Errata 1 format

Instructions detailing specific requirements for reporting the results of the appraisal, including data and file format and delivery are found in the FHA Single Family Housing Appraisal Report and Data Delivery Guide.

a. Additional Required Documentation required for Appraisals of New Construction

When New Construction is less than 90% complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90% or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

Appraiser Responsibility to Report Property Compliance

The Appraiser must observe, analyze and report that the Property meets HUD's MPR and MPS.

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness and security of New Construction.

Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with FHA's MPR and MPS.

b. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status

i. Existing Construction

(A) Definition

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.

(B) Standard

For Existing Construction, the Appraiser must notify the Mortgagee of the deficiencies when the Property does not comply with FHA's MPR.

ii. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year.

Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing 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 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.

(B) Standard

For New Construction, the Appraiser must notify the Mortgagee of the deficiencies when the Property does not comply with FHA's MPR and MPS, including 24 CFR §§ 200.926a-200.926e.

iii. Determination of Defective Conditions

(A) Definition

Defective Conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.

(B) Standard

The Appraiser must identify defective conditions.

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR, and provide an estimated cost to cure.

iv. Inspection by a Qualified Individual or Entity

If the Appraiser cannot determine that a Property meets FHA's MPR or MPS, an inspection by a qualified individual or Entity is required.

Conditions that require an inspection by qualified individuals or Entities include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or
- any other condition that in the professional judgment of the Appraiser warrants inspection.

Required Analysis and Reporting

The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.

If inspection is required, the Appraiser must cite the reason for requiring an inspection.

c. Minimum Property Requirements and Minimum Property Standards

MPR and MPS form the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.

i. Legal Requirements

(A) Real Estate Entity

The Appraiser must contact the Mortgagee if the subject Property is not a single, marketable real estate entity, and/or does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.

(B) Property Rights

(1) Definition

Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

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.

(2) Standard

An Appraiser must contact the Mortgagee if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD's requirements below.

(C) Planned Unit Development

(1) Definition

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

(2) Standard

An Appraiser must contact the Mortgagee if the Property is located in a PUD that does not meet this definition.

(D) Leasehold Interests

(1) Definition

Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

(a) Forward Mortgage Requirements

A Mortgage secured by real estate under Leasehold requires a renewable lease with a term of not less than 99 years, or a lease that will extend not less than

10 years beyond the maturity date of the Mortgage. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

(b) Reverse Mortgage (HECM) Requirements

A reverse mortgage, or Home Equity Conversion Mortgage (HECM), secured by real estate under Leasehold requires a renewable lease for not less than 99 years, or a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

(3) Required Analysis and Reporting

An Appraiser must contact the Mortgagee if the Leasehold Interest does not meet this requirement.

ii. Legal and Land Use Considerations

(A) Party or Lot Line Wall

(1) Standard

A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.

(2) Required Analysis and Reporting

The Appraiser must note if the party or lot line wall does not extend to the roof or beyond.

(B) Non-Residential Use of Property

(1) Standard

The non-residential portion of the total floor area may not exceed 49 percent.

Any non-residential use of the Property must be subordinate to its residential use, character and appearance. Non-residential use may not impair the residential character or marketability of the Property. The non-residential use of the Property must be legally permitted and conform to current zoning requirements.

(2) Required Analysis and Reporting

The Appraiser must calculate the non-residential portion of any residential Property. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area.

The Appraiser must comment on any non-residential use within the Property and state the percentage of the total floor area that is utilized as non-residential. The Appraiser must report whether the non-residential usage is legal and in compliance with current zoning requirements.

The Appraiser must contact the Mortgagee if the non-residential portion of the Property exceeds 49 percent.

(C) Zoning

(1) Standard

FHA requires the Property to comply with all applicable zoning ordinances.

(2) Required Analysis and Reporting

The Appraiser must determine if current use complies with zoning ordinances.

If the existing Property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the Property as "Legal Non-Conforming" and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the non-conforming use has on the Property's value and marketability, and state whether the Property may be legally rebuilt if destroyed.

(D) Encroachments

(1) Definition

An Encroachment refers to an interference with or intrusion onto another's property.

(2) Standard

The Appraiser must report the presence of any Encroachments so that the Mortgagee can determine eligibility.

(3) Required Analysis and Reporting

The Appraiser must identify any Encroachments of the subject's dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property.

The Appraiser must notify the Mortgagee if, upon observation, it appears that an Encroachment affects the subject Property.

(E) Easements and Deed Restrictions

(1) Definition

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

(2) Standard

The Appraiser must note the presence of any Easements and Deed Restrictions to assist the Mortgagee in determining eligibility.

(3) Required Analysis and Reporting

The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.

iii. Externalities

(A) Definition

Externalities refer to off-site conditions that affect a Property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, Overhead Electric Power Transmission Lines and Local Distribution Lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

(B) Standard

The Appraiser must report the presence of Externalities so that the Mortgagee can determine eligibility.

(C) Required Analysis and Reporting

The Appraiser must consider how Externalities affect the marketability and value of the Property, report the issue and the market's reaction, and address any positive or negative effects on the value of the subject Property within the approaches to value.

(1) Heavy Traffic

The Appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.

(2) Airport Noise and Hazards

The Appraiser must identify if the Property is affected by noise and hazards of low flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly. The Appraiser must determine and report the marketability of the Property based on this analysis.

(3) Special Airport Hazards

The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, the Appraiser must require compliance with the Department of Defense (DoD) Guidelines and a buyer's acknowledgement.

(a) Existing Dwelling

The Appraiser must condition the appraisal on the Borrower's acknowledgment of the hazard.

(b) Proposed Construction, Under Construction, and Existing Less than One Year

The Appraiser must note that the Property is ineligible for FHA insurance and notify the Mortgagee.

(4) Proximity to High Pressure Gas Lines

The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface. The Appraiser must determine and report the marketability of the Property based on this analysis.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property is not located more than 10 feet from the nearest boundary of the pipeline Easement.

(5) Overhead Electric Power Transmission and Local Distribution Lines

(a) Definitions

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual Properties.

(b) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Overhead Electric Power Transmission Lines or the Local Distribution Lines pass directly over any dwelling, Structure or related property improvement, including pools, spas, or water features.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the dwelling or related property improvements are located within an Easement or if they appear to be located within an unsafe distance of any power line or tower.

The Appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances. The Appraiser must also determine if the guidelines for Encroachments apply.

(6) Smoke, Fumes and Offensive or Noxious Odors

The Appraiser must notify the Mortgagee if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

(7) Stationary Storage Tanks

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material. This includes domestic and commercial uses as well as automotive service station tanks.

iv. Site Conditions

(A) Access to Property

(1) Definition

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

(2) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property does not have safe pedestrian access and Adequate Vehicular Access from a public street or private street that is protected by a permanent recorded Easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

The Appraiser must note whether there is safe pedestrian access and Adequate Vehicular Access to the site and analyze any effect on value or marketability.

The Appraiser must report evidence of a permanent Easement.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

(B) Onsite Hazards and Nuisances

(1) Definition

Onsite Hazards and Nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the Property.

(2) Standard

The Appraiser must report the presence of all Onsite Hazards and Nuisances so that the Mortgagee can determine eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.

(3) Required Analysis and Reporting

The Appraiser must note and comment on all Onsite Hazards and Nuisances affecting the Property. The Appraiser must also provide photographs of potential problems or issues to assist the Mortgagee in understanding the problem.

Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

New and Proposed Construction

The Appraiser must report any special conditions that may exist or arise during construction and necessitate precautionary or hazard mitigation measures.

(C) Topography

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.

The Appraiser must make the appraisal subject to an inspection by a qualified individual or Entity if the purchase contract or any other documentation indicates, or if the Appraiser observes dampness because of a foundation issue.

The Appraiser must report to the Mortgagee any danger due to topographic conditions (e.g., earth and mudslides from adjoining properties, falling rocks and avalanches) to the subject Property or the adjoining land.

(D) Grading and Drainage

The Appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation.

The Appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements. The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the “Site” section of the report, if the standing water is problematic.

(E) Suitability of Soil

The Appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

The Appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

The Appraiser must analyze and report how this would affect the Property.

(F) Land Subsidence and Sinkholes

(1) Definition

Land Subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

(2) Standard

Danger of Land Subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsoil or subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

(3) Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if there is probable or imminent danger of Land Subsidence so that the Mortgagee can determine eligibility or the need to require the purchase of subsidence insurance.

The Appraiser must analyze and report any readily observable conditions of the surface of the land that indicate potential problems from subsidence or the potential for lack of support for the surface of the land or building foundations.

In mining areas, the Appraiser must analyze and report the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable or negligible.

(G) Oil or Gas Wells

(1) Operating or Proposed

The Appraiser must examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the dwelling is located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.

(2) Abandoned

If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent Property, the Appraiser must stop work and notify the Mortgagee.

The Appraiser may resume work when the Mortgagee provides a letter from local jurisdiction or the appropriate state agency, stating that the subject well was permanently abandoned in a safe manner.

The Appraiser may only complete the appraisal on a Property located near a gas well that emits hydrogen sulfide if the minimum clearance has been established by a petroleum engineer. The Appraiser must assess any impact that the location of the well has on the value and marketability of the Property.

Hydrogen Sulfide

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

The Appraiser may only complete an appraisal on a Property if the Mortgagee has required an inspection by a qualified person and provided evidence that the minimum clearance has been established.

(H) Slush Pits

(1) Definition

A Slush Pit refers to 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.

(2) Required Analysis and Reporting

If the Property has a Slush Pit, the Appraiser must make the appraisal subject to the removal of all unstable and toxic materials and the site made safe.

(I) Property Eligibility in Special Flood Hazard Areas

The Appraiser must review the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations on the applicable appraisal reporting form. If the Property appears to be located within a Special Flood Hazard Area (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report.

The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date. If the Property is not shown on any map, the Appraiser must enter "not mapped." The Appraiser must quantify the effect on value, if any, for Properties situated within a designated SFHA.

(J) Coastal Barrier Resources System

The Appraiser must stop work and notify the Mortgagee of the deficiency of MPR or MPS if the Property is located within a Coastal Barrier Resources System (CBRS) designated area.

The Appraiser must review the FEMA FIRM to determine if a Property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-slanting diagonal lines, both solid and broken. If it appears that the Property is located in a CBRS, the Appraiser must review CBRS location maps to confirm.

(K) Lava Zones

When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) Lava Flow Hazard Zone maps. The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property is located in Zones 1 or 2.

The Appraiser must report in the "Comments" section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.

(L) Mineral, Oil, and Gas Reservations or Leases

The Appraiser must analyze and report the degree to which the residential benefits may be impaired or the Property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The Appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may arise or accrue to the subject Property from exercise of reservation or lease privileges on neighboring properties.

(M) Soil Contamination

(1) Definition

Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

(2) Standard

Conditions that indicate Soil Contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

(3) Required Analysis and Reporting

The Appraiser must check readily observable evidence of Soil Contamination and hazardous substances in the soil. The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject Property.

(N) Residential Underground Storage Tanks

The Appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or onsite contamination, the Appraiser must make a requirement for further inspection.

v. New Construction Site Analysis

The Appraiser must obtain a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.

vi. Excess and Surplus Land

(A) Definition

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

(B) Required Analysis and Reporting

The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser's conclusion of the existence of Excess Land. The Appraiser must include Surplus Land in the valuation.

If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of

being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

vii. Characteristics of Property Improvements

(A) Requirements for Living Unit

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if each living unit does not contain any one of the following:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; or
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units. For Manufactured Housing requirements, see the Manufactured Housing section.

(B) Access to Living Unit

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit. For attached dwellings, the access may be by means of alley, Easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors.

(C) Non-Standard House Styles

(1) Definition

Non-Standard House Style refers to unique Properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the Appraiser's professional opinion, are unique.

(2) Required Analysis and Reporting

The Appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

The Appraiser may require additional education, experience, or assistance for these types of Properties.

(D) Modular Housing

(1) Definition

Modular Housing refers to Structures 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. Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish and electrical – are identical to what is found in comparable quality conventional "stick-built" housing.

(2) Required Analysis and Reporting

The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.

(E) Identifying an Accessory Dwelling Unit

(1) Definition

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

(2) Required Analysis and Reporting

As part of the highest and best use analysis, the Appraiser must make the determination to classify the Property as a Single Family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will then determine the classification of the Property and the analysis and reporting required.

An ADU is usually subordinate in size, location and appearance to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress. The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling.

The Appraiser must notify the Mortgagee of the deficiency in MPR or MPS if more than one ADU is located on the subject Property.

(F) Additional Manufactured Home on Property

The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.

The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

(G) Leased Equipment, Components, and Mechanical Systems

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.

d. Gross Living Area

i. Definition

Gross Living Area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-grade living space.

ii. Required Analysis and Reporting

The Appraiser must:

- identify non-contiguous living area and analyze its effect on functional utility;
- ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

In the case of non-standard Properties and floor plans, the Appraiser must observe, analyze, and report the market expectations and reactions to the unique Property.

iii. Additions and Converted Space

The Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.

Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA. The Appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as Contributory Value, if any.

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space. If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction.

Alternatively, the Appraiser may consider and analyze converted living spaces on a separate line within the sales comparison grid including the functional utility line in order to demonstrate market reaction.

The Appraiser must not add an ADU or secondary living area to the GLA.

iv. Partially Below-Grade Habitable Space

(A) Definition

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

(B) Required Analysis and Reporting

The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.

Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.

v. Bedrooms

The Appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency, regardless of location above or below grade.

e. Appliances

i. Definition

Real Property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

ii. Standard

Cabinets and built-in appliances that are considered Real Property must be present and operational.

iii. Required Analysis and Reporting

The Appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered Personal Property or Real Property. The Appraiser must operate all conveyed appliances and observe their performance.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if any conveyed appliances are inoperable.

f. Swimming Pools

The Appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable. If the pool water contains algae and is aesthetically unappealing, but the Appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required. Swimming pools must be operational to provide full Contributory Value.

The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land re-graded if necessary.

If the swimming pool has been winterized, or the Appraiser cannot determine if the pool is in working order, the Appraiser must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.

g. Mechanical Components and Utilities

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if mechanical systems are not safe to operate; not protected from destructive elements; do not have reasonable future utility, durability and economy; or do not have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.

If the Property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

1. render the appraisal as subject to re-observation;
2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report. The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

i. Heating and Cooling Systems

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the permanently installed heating system does not:

- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is readily obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.

Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.

ii. Electrical System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property. The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.

iii. Plumbing System

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to check water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there is no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are deficiencies, the Appraiser must require repair or further inspection.

h. Roof Covering

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the roof covering does not prevent entrance of moisture or provide reasonable future utility, durability and economy of maintenance and does not have a remaining physical life of at least two years.

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the “Improvements” section of the report.

The Appraiser must report if the roof has less than two years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

i. Structural Conditions

The Appraiser must report on structural conditions so that the Mortgagee can determine if the foundation and Structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results. If the Appraiser notes any structural issues, the Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

j. Defective Paint

If the dwelling or related improvements were built after 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.

If the dwelling or related improvements were built on or before December 31,1978, refer to the section on Lead-Based Paint.

k. Attic Observation Requirements

The Appraiser must observe the interiors of all attic spaces.

The Appraiser is not required to disturb insulation, move personal items, furniture, equipment or debris that obstructs access or visibility. If unable to view the area safely in their entirety, the Appraiser must contact the Mortgagee and reschedule a time when a complete visual observation can be performed, or complete the appraisal subject to inspection by a qualified third party. In cases where access through a scuttle is limited and the Appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the Appraiser will suffice.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition, and render the appraisal subject to inspection and repairs if necessary.

If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

An observation performed in accordance with these guidelines is visual and is not technically exhaustive.

l. Foundation

The Appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal where physical deficiencies or adverse conditions are reported.

For Manufactured Housing, the appraisal must be conditioned upon the certification of an engineer or architect that the foundation is in compliance with the Permanent Foundations Guide for Manufactured Housing (PFGMH).

i. Basement

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

ii. Sump Pumps

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the sump pump is not properly functioning at the time of appraisal. A sump pump may be hard-wired by an acceptable wiring method or may have a factory electrical cord that is to be connected to a receptacle suitable for such use.

m. Crawl Space Observation Requirements

The Appraiser must visually observe all areas of the crawl space and notify the Mortgagee of the deficiency of MPR and MPS when the crawl space does not satisfy any of the following criteria:

- The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The crawl space must be properly vented unless the area is mechanically conditioned.
- The crawl space must be free of trash, debris, and vermin.
- The crawl space must not be excessively damp and must not have any water pooling. If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.

The Appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness and security of the Property.

In cases where access through a scuttle is limited, and the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the Appraiser will suffice. If there is no access to the crawl space but there is evidence of a deficient condition (such as

water-stained subflooring or smell of mold), the Appraiser must report this condition and the Mortgagee must have a qualified third party perform an inspection.

If there is no access, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

Not all houses (especially historic houses) with a vacant area beneath the flooring are considered to have a crawl space; it may be an intentional void, with no mechanical systems and no intention or reason for access.

n. Environmental and Safety Hazards

The Appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the Structure from soil or other differential ground movements, subsidence, flood, and other hazards.

i. Lead-Based Paint

(A) Improvements Built on or Before 1978

The Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose). Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant Structures.

(B) Condominium Units Built on or Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.

ii. Methamphetamine Contaminated Property

If the Mortgagee notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or

by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.

If the effective date of the appraisal is prior to certification that the Property (site and dwelling) is safe for habitation, the Appraiser will complete the appraisal subject to certification that the Property is safe for habitation.

If the effective date of the appraisal is after certification that the Property (site and dwelling) is safe for habitation, and the Mortgagee has provided a copy of the certification by the certified hygienist, the Appraiser must include a copy of the certification in the appraisal report.

The Appraiser must analyze and report any long-term stigma caused by the Property's contamination by meth and the impact on value or marketability.

iii. Wood Destroying Insects/Organisms/Termites

The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.

o. Repair Requirements

When examination of New or Existing Construction reveals non-compliance with MPR and MPS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be effected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal, within the reporting form.

Regardless of the Appraiser's suggested repairs, the Mortgagee will determine which repairs are required.

i. Limited Required Repairs

The Appraiser must limit required repairs to those repairs necessary to:

- maintain the safety, security and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

ii. As-Is Condition and Cosmetic Repairs

The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property. Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property. Cosmetic repairs include missing handrails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser's professional judgment do not pose a health and safety issue to the occupants of the house.

If an element is functioning well but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

iii. Defective Conditions Requiring Repair

The nature and degree of any noted deficiency will determine whether the Appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.

iv. Conditions Requiring Inspection by a Qualified Individual or Entity

The Appraiser must notify the Mortgagee and make the appraisal subject to an inspection by a qualified individual or Entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the Appraiser's ability to assess. The Appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.

p. Utility Services

i. Definition

Utility Services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.

ii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the subject Property is an attached, detached, or manufactured Single Family dwelling and the utilities are not independent for each living unit. This does not apply to ADUs.

The Appraiser must also notify the Mortgagee of the deficiency of MPR or MPS if utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body.

(A) Multiple Living Units Under Single Ownership

The Appraiser should not note a deficiency of MPR or MPS if the Property contains multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity and is served by one meter in jurisdictions that allow single meter rental properties, unless separate utility service shut-offs are not provided for each.

The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single Mortgage.

(B) Living Units Under Separate Ownership

The Appraiser should not note the deficiency of MPR or MPS if the Property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an Easement or covenant and maintenance agreement, unless individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities.

If a single drain line in the building serves more than one unit, and the building drain clean-outs are not accessible from the exterior, the Appraiser must note the deficiency of MPR or MPS to the Mortgagee.

iii. Individual Water Supply Systems

(A) Definition

An Individual Water Supply System refers to a potable water source providing water to an individual Property.

(B) Standard

When an Individual Water Supply System is present, water quality must meet the requirements of the health authority with jurisdiction. If there are no local (or state) water quality standards, then water must be potable, which may be demonstrated by compliance with the current EPA Manual of Individual and Non-Public Water Supply Systems.

Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance is provided that the treatment will not endanger the quality of the water supply.

(C) Required Analysis and Reporting

When the Appraiser obtains evidence that any of the water quality requirements are not met, the Appraiser must notify the Mortgagee and provide a cost cure.

(1) Conditions for Individual Water Supplies

The Appraiser must note the deficiency of MPR or MPS if the subject Property contains a well located within the foundation walls of an existing dwelling and there is no evidence that the local jurisdiction recognizes and permits such a location, that it is common for the market area, and does not adversely affect marketability unless the well is located within the foundation walls of a New Construction dwelling in an arctic or sub-arctic region.

The Appraiser must report when water to a Property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site. The Appraiser must report whether such systems are readily accepted by local market participants and that the water supply system may violate MPR or MPS.

The Appraiser must note the deficiency of MPR or MPS if the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point or artesian wells.

A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

(2) Required Analysis and Reporting

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- the water supply relies upon a water purification system due to the presence of contaminates;
- corrosion of pipes (plumbing);
- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water.

The Appraiser must also be familiar with the minimum distance requirements between private wells and sources of pollution and, if discernible, comment on them. The Appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building Structures but may provide

estimated distances where they are comfortable doing so. When available, the Appraiser should obtain from the homeowner or Mortgagee a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

iv. Shared Wells

(A) Definition

A Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

(B) Required Analysis and Reporting

If the Property has a Shared Well, the Appraiser must report it and note any readily observable deficiencies. The Appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that the Mortgagee may review the agreement to determine eligibility. The Appraiser must also require an inspection under the same circumstances as an individual well.

v. Community Water Systems

(A) Definition

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

(B) Required Analysis and Reporting

If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

The Appraiser must report on the availability of connection to public and/or Community Water System or sewer system, and any jurisdictional conditions requiring connection.

q. Onsite Sewage Disposal Systems

i. Definition

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

ii. Required Analysis and Reporting

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Property is not served by an off-site sewer system and any living unit is not provided with

an Onsite Sewage Disposal System adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health.

The Appraiser must visually inspect the Onsite Sewage Disposal System and its surrounding area. The Appraiser must require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

The Appraiser must note the deficiency of MPR or MPS and notify the Mortgagee if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.

4. Valuation and Reporting Protocols

a. Photograph, Exhibits and Map Requirements

The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value. The sketch must show "covered" or "uncovered" to indicate a roof or no roof (such as over a patio). The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser's observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirement**
Subject Property Exterior	• Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photograph • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject's grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirement**
Subject Property Interior	• Kitchen, main living area, bathrooms, bedrooms • Any other rooms representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas
Comparable Sales, Listings, Pending Sales, Rentals, etc.	• Front view of each comparable utilized • Photographs taken at an angle to depict both the front and the side when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	• Additional photographs of the common areas and shared amenities of the Condominium Project

b. Intended Use and Intended Users of Appraisal

The intended use of the appraisal is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage (24 CFR § 200.145(b)).

FHA and the Mortgagee are the intended users of the appraisal report.

The FHA Appraiser does not guarantee that the Property is free from defects. The appraisal establishes the value of the Property for mortgage insurance purposes only.

c. Development of the Market Value

i. Value Required

(A) Definition of Market Value

Market Value refers to the most probable price which a Property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal

consideration for the Property sold unaffected by special or creative financing or Sales Concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or Sales Concessions. No adjustments are necessary for those costs, which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable Property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the Appraiser's judgment.

(B) Standard

The Appraiser must determine the Market Value of the subject Property.

(C) Required Analysis and Reporting

The Appraiser must analyze all data researched and collected prior to reporting the value.

ii. Appraisal Conditions

(A) Definition

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the value of conclusion can be considered valid.

(B) Standard

Conclusions about the observed conditions of the Property provide the rationale for the opinion of Market Value.

The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages. Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), subject to an additional inspection, or completion of construction, repairs or alterations.

(C) Required Analysis and Reporting

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.

The following table illustrates property conditions under which an Appraisal Condition must be made.

Report Conclusion	Appraisal Condition
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser. 2. Establishing the As-Is Value for a 203(k). 3. The Property is being recommended for rejection. 4. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claims Without Conveyance of Title (CWCOT) @ 24 CFR § 203.368. 5. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 291.100.	"As-is"
1. Proposed Construction where construction has not started. 2. Under Construction but not yet complete (less than 90%). 3. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.	"Subject to completion per plans and specifications"
1. Repair or Alteration Condition(s) noted by the Appraiser to: • protect the health and safety of the occupants; • protect the security of the Property; • correct physical deficiencies or conditions affecting structural integrity. 2. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work. 3. Under Construction, more than 90% complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.	"Subject to the following repairs or alterations"
Required inspection(s) to meet HUD's Minimum Property Requirements and Minimum Property Standards.as noted by the Appraiser.	"Subject to the following required inspection"

iii. Valuation Development

(A) Standard

There are three valuation approaches as applied to one-to four-residential unit Properties:

- sales comparison approach;
- cost approach; and
- income approach to value.

(B) Required Analysis and Reporting

The Appraiser must obtain credible and verifiable data to support the application of the three approaches to value.

The Appraiser must perform a thorough analysis of the characteristics of the market, including the supply of properties that would compete with the subject and the corresponding demand.

The Appraiser must perform a highest and best use of the Property, using all four tests and report the results of that analysis.

(C) FHA Data Requirements for the Subject and Comparable Properties

The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, Mortgagees, or other parties with relevant information. If the sale cannot be verified by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.

(D) Effective Age and Remaining Economic Life

(1) Standard

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

(2) Required Analysis and Reporting

The Appraiser must state the remaining economic life as a single number or as a range for all property types, including condominiums. The Appraiser must provide an explanation if the remaining economic life is less than 30 years.

The Appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

(E) Approaches to Value

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant.

(1) Cost Approach to Value

The Appraiser may use any of the credible and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other credible source that can be duplicated by the reader).

If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.

(a) Land Valuation

(i) Standard

If the cost approach is applicable, the Appraiser must estimate the site value. Acceptable methodology used to estimate land value include sales comparison, allocation, and extraction.

(ii) Required Analysis and Reporting

The Appraiser must include a summary of the supporting documentation and analysis in the appraisal. The Appraiser must maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal. For Properties with Excess Land, the Appraiser must include all comparable land sale data and analysis in the report.

(b) Estimate of Cost New for Housing

(i) Standard

The Appraiser may use either the replacement cost or the reproduction cost.

(ii) Required Analysis and Reporting

The Appraiser must state the method used and the source of the data.

The Appraiser must use the current version of a published cost data source recognized by the industry. The Appraiser must report the quality rating selected and utilized, as well as identify the source of the data, and its publication and/or effective date. The Appraiser is expected to be aware of local cost data from builders, contractors, building supply firms, and other building industry participants as a check against the published cost data.

The Appraiser must also provide a supporting explanation when applying adjustments to the published cost data, such as adjustments for:

- transportation and labor in remote areas;
- entrepreneurial profit; or
- fees and charges unique to the area.

Specific requirements for the cost approach as applied to Manufactured Homes are addressed in the FHA Single Family Housing Appraisal Report and Data Delivery Guide - Manufactured Home Appraisal Report.

(2) Income Approach to Value for Residential Properties

(a) Standard

The Appraiser should apply the income approach to a Single Family residential Property when there is evidence of recently rented and then sold data pairs.

The Appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restrictions. If comparable sales do not have rent control restrictions similar to those of the subject, an appropriate adjustment should be applied.

(b) Required Analysis and Reporting

The Appraiser must analyze rental data and provide support for the estimated market rents and adjustments applied to the comparable rentals in the reconciliation of this approach.

The Appraiser must derive the Gross Rent Multiplier (GRM) factor from market data and support it prior to applying it to the market rent for the subject.

(3) Sales Comparison Approach

(a) Standard

The sales comparison approach is required for all appraisals.

(b) Required Analysis and Reporting

The Appraiser must present the data, points of comparison, and analysis; provide support for the Appraiser's choice of comparable properties, and the adjustments for dissimilarities to the subject; and include sufficient description and explanation to support the facts, analyses and the Appraiser's conclusion.

If the data from the market area is insufficient to support some of these requirements, the Appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached and the steps taken by the Appraiser to attempt to meet the guidelines.

(c) Comparable Sale Selection

(i) Characteristics of the Property

Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- site;
- site view;
- location;
- design;
- appeal;
- style;
- age;
- size;
- utility;
- quality;
- condition; and
- any other factor that in the Appraiser's professional judgment is recognized as relevant in the subject market.

(ii) Characteristics of the Transaction

Definition

An Arm's Length Transaction refers to a transaction between unrelated parties and meets the requirements of Market Value.

Standard

The Appraiser must utilize Arm's Length Transactions for comparable properties except when there is evidence that REO sales or short sale/Pre-Foreclosure Sale (PFS) transactions are so prevalent that normal Arm's Length Transactions are not present or supported by the market trend.

A transaction involving a foreclosure transfer to a mortgagee is not evidence of the Market Value, and is not a valid type of comparable sale for an FHA-insured Mortgage.

The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an Arm's Length Transaction:

- REO sale – transfer from mortgagee to new owner;
- short sale/PFS;
- estate sale;
- court ordered sale;

- relocation sale; and
- flip transactions.

Required Analysis and Reporting

The Appraiser must include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion. At a minimum, the Appraiser must include the most recent and relevant sales, preferably within the last six months. The Appraiser must include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal. The Appraiser must provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal.

The Appraiser must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.

(d) Adjusting Comparable Properties

(i) Standard

Calculation of the Contributory Value includes methods based on the:

- direct sales comparison approach;
- cost approach; and
- income approach.

(ii) Required Analysis and Reporting

The Appraiser must apply all appropriate techniques and methods, conduct an analysis, and report the results. The Appraiser must include the reasoning that supports the analyses, opinions, and conclusions in the report.

(e) Comparable Selection in Diverse Real Estate Markets

(i) Standard

Comparable sales should be selected based on similar locational and physical characteristics, not sales price.

Subdivisions, Condominiums or Planned Unit Development Projects

Arm's length resale activity from within the established subdivision, condominium or PUD project is often the best indicator of value.

(ii) Required Analysis and Reporting

The Appraiser must include an analysis of the comparable properties that includes an explanation. The analysis must reflect typical Borrower expectations and behavior.

Subdivisions, Condominiums or Planned Unit Development Projects

If the Appraiser uses sales of comparable properties that are located outside of the subject's subdivision or project, the analysis must reflect typical Borrower expectations and behavior.

For Properties in new subdivisions, or units in new (or recently converted) Condominium Projects, the Appraiser must include, for comparison, properties in the subject market area as well as properties within the subject subdivision or project. Whenever possible, the Appraiser must select at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that this market acceptance may be directly compared. If the new project is mature enough to have experienced arm's length resales, the Appraiser must also analyze and report those properties.

(f) Comparable Sale Selection in Rural and Slow Growth Markets

If insufficient comparable sales have occurred within the previous six months, the Appraiser must include at least three sales that occurred less than 12 months prior to the date of appraisal.

Where there is a scarcity of recent comparable sales data, the Appraiser may include sales older than 12 months as additional sales in markets. The Appraiser must report the most recent and relevant sales, and include a thorough explanation of the market conditions, the levels of supply and demand, and a reason for the lack of recent sales data.

(g) Sales Concessions

(i) Definition

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, or special financing incentives.

(ii) Standard

Adjustments are not calculated on a dollar for dollar cost of the financing or Sales Concession. However, the dollar amount of any adjustment should approximate the market's reaction to the Sales Concessions based on the Appraiser's analysis of observable and supportable market trends

and expectations. The adjustment should reflect the difference between the sales price with the Sales Concessions, and what the Property would have sold for without the concessions under typical market conditions.

(iii) Required Analysis and Reporting

The Appraiser must verify all comparable sales transactions for Sales Concessions and report those findings in the appraisal. The Appraiser must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one of their representatives), the Appraiser must report the lack of verification.

The Appraiser must make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The Sales Concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The Appraiser must include an explanation of the effect of the Sales Concessions on the sale price of the comparable.

(h) Bracketing

(i) Definition

Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

(ii) Standard

Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data. Comparable properties should not be chosen only because their prices bracket a desired or estimated value.

(iii) Required Analysis and Reporting

In analyzing the comparable pool to determine the best comparable sales to display and compare in the adjustment grid, the Appraiser must use Bracketing techniques when possible and appropriate.

(i) Market Condition (Time) Adjustments

(i) Definition

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

(ii) Standard

Within the sales adjustment grid, the potentially comparable properties may be adjusted if they were contracted for sale during a market period different from that of the date of valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation.

*(iii)*Required Analysis and Reporting

The Appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market.

(F) FHA Appraisal Requirements in Changing Markets

(1) Standard

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The final conclusion must be based on the reconciliation of all data.

(a) Increasing Markets

In an increasing market, positive Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(b) Declining Markets

Although there is no standard industry definition, for purposes of performing appraisals of Properties that are to be collateral for FHA-insured Mortgages, a Declining Market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory and extended marketing times. Generally, a trend in the housing market is identifiable when it extends

for a period of at least six months or two quarters prior to the effective date of the appraisal.

In a Declining Market, negative Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(2) Required Analysis and Reporting

The Appraiser must accurately report market conditions and determine when housing trends are increasing, stable or declining. The Appraiser must provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

The Appraiser must include an absorption rate analysis, and at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal. If the Appraiser cannot comply with this requirement due to the lack of market data, a detailed explanation is required.

The Appraiser must include a minimum of two active listings or pending sales on the appraisal grid (in addition to at least three recently settled sales).

For active listings or pending sales, the Appraiser must:

- ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;
- use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;
- include the original list price, any revised list prices, and calculate the total Days on Market (DOM). The Appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal reporting form;
- reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and
- if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

(3) Required Analysis and Reporting

If the appraisal has no conditions, the Appraiser must render an as-is value opinion.

If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:

- "subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;"
- "subject to the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed;" or
- "subject to a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair."

(H) Signature

(1) Standard

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser. A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.

The FHA Roster Appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report as well as the Market Conditions

Addendum to the appraisal form. The FHA Roster Appraiser must also inspect the subject Property and at least the exterior of the comparable properties.

(2) Required Analysis and Reporting

In another appraiser or trainee appraiser provided assistance or participated in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

5. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

a. Definitions

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 include the plumbing, heating, air-conditioning and electrical systems contained therein. Manufactured Housing is designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed HUD Certification Label. Manufactured Housing may also be referred to as mobile housing, sectionals, multi-sectionals, double-wide, triple-wide or single-wide.

A Manufactured Home refers to a single dwelling unit of Manufactured Housing.

b. Standard

The Appraiser must notify the Mortgagee and report a deficiency of MPR or MPS if a Manufactured Home does not comply with the following:

- have a floor area of not less than 400 square feet;
- was constructed on or after June 15, 1976, in conformance with the federal MHCSS, as evidenced by an affixed HUD Certification Label in accordance with 24 CFR § 3280.11 (Manufactured Homes produced prior to that date are ineligible for insured financing);
- The Manufactured Home and site exists together as a real estate Entity in accordance with state law (but need not be treated as real estate for taxation purposes);
- was moved from the factory or dealer directly to the site;
- was designed to be used as a dwelling with a permanent foundation built to comply with the PFGMH;
- The finished grade elevation beneath the Manufactured Home or, if a basement is used, the grade beneath the basement floor is at or above the 100-year return frequency flood elevation;
- The Structure is designed for occupancy as a Principal Residence by a single family; or
- The lease meets the requirements of Valuation of Leasehold Interests.

c. Foundation Systems

i. New Construction for Manufactured Housing

(A) Definition

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

(B) Standard

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be adequately secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete, masonry or treated wood) and the PFGMH for foundations.

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for New Construction, the Appraiser must notify the Mortgagee and report the deficiency of the MPR or MPS.

ii. Existing Construction for Manufactured Housing

(A) Definition

Existing Construction for Manufactured Housing refers to a Manufactured Home that has been permanently installed on a site for one year or more prior to the case number assignment date.

(B) Standard

If the perimeter enclosure is non-load-bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.

Skirting

Skirting refers to a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal attached to the side of the Structure, extending to the ground (generally, not installed below frost depth).

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for Existing Construction, the Appraiser must notify the Mortgagee and report the deficiency in the MPR or MPS.

d. Running Gear

i. Definition

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads.

ii. Standard

The towing hitch and Running Gear must be removed.

iii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee and report deficiency of MPR or MPS if the Running Gear or towing hitch are still attached to the Manufactured Housing unit.

e. Perimeter Enclosure

i. Standard

The space beneath Manufactured Homes must be properly enclosed. The perimeter enclosure must be a continuous wall that is adequately secured to the perimeter of the unit and allows for proper ventilation of the crawl space.

ii. Required Analysis and Reporting

The Appraiser must notify the Mortgagee and report a deficiency of MPR or MPS if the Manufactured Housing unit is not properly enclosed. The Appraiser must call for repairs or further inspection, if warranted.

f. HUD Certification Label

i. Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

ii. Standard

Manufactured Homes must have an affixed HUD Certification Label located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the

house as practicable. Etched on the HUD Certification Label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

iii. Required Analysis and Reporting

The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is missing or that the Appraiser was unable to locate it.

g. Data Plate

i. Definition

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

ii. Standard

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen.

iii. Required Analysis and Reporting

The Appraiser must report the information on the Data Plate within the appraisal, including the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps.

If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report this in the appraisal and is not required to secure the Data Plate information from another source.

h. Flood Zone

The Appraiser must stop work and contact the Mortgagee if the Appraiser determines that a Manufactured Home is located in FEMA Flood Zones A or V. The Appraiser may continue to work on the assignment if the Mortgagee provides a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) or flood elevation certification. If the Appraiser is provided with a LOMA or LOMR that removes the Property from the flood zone, the Appraiser does not need to indicate that the Property is in a flood zone. If provided with an elevation certificate, the Appraiser must indicate the Property is in a flood hazard area on the appraisal report.

i. Additions to Manufactured Housing

If the Appraiser observes additions or structural changes to the original Manufacture Home, the Appraiser must condition the appraisal upon inspection by the state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance, or a licensed

structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

j. Measurement Protocols

The Appraiser must calculate GLA based on the overall length, including living areas and other projections that are at least seven feet in height. The Appraiser must not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements.

k. Sales Comparison Approach for Manufactured Housing

The Appraiser must include a sufficient number of sales to produce a credible value. The Appraiser must include at least two Manufactured Homes in the comparable sales grid.

l. Estimate of Cost New for Manufactured Housing

The Appraiser must apply the cost approach for New Construction Manufactured Housing.

The Appraiser can find specific requirements for the cost approach as applied to Manufactured Housing in the FHA Single Family Housing Appraisal Report and Data Delivery Guide - Manufactured Home Appraisal Report.

6. Condominium Projects

a. Definition

A Condominium Project refers to a multi-unit Property in which persons hold title to individual units and an undivided interest in common elements. Common elements (areas) include underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration. Common areas are typically managed by a condominium association.

b. Standard

A Condominium Project must be on the list of FHA-approved condominiums unless it meets the definition for a Site Condominium.

c. Required Analysis and Reporting

The Appraiser must check if the Condominium Project is on the list of FHA-approved condominiums.

d. Site Condominium

i. Definition

A Site Condominium refers 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. Project approval is required for Site Condominiums that do not meet this definition.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*.

e. Manufactured Housing Condominium Projects

i. Standard

Individual Manufactured Housing units in Condominium Projects are eligible for FHA insurance, on both HECM and forward Mortgages.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1004C/Freddie Mac Form 70-B, *Manufactured Home Appraisal Report*.

In addition to the requirements for analysis and reporting of the Manufactured Home, the Appraiser must inspect the Condominium Project and provide the project information data as an addendum to the appraisal report. Required data includes all data elements as found in the Project Information Section of Fannie Mae Form 1073/Freddie Mac Form 465.

7. Valuation of Leasehold Interests

a. Definition

Leasehold Interests refer to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

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.

b. Standard

Eligible Leasehold terms must meet the requirements included in Leasehold Interests.

c. Required Analysis and Reporting

The Appraiser must obtain a copy of the lease from the Mortgagee. The Appraiser must analyze and report the terms of the ground lease, including the amount of the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, thereby cancelling the Ground Rent), and if the Ground Rent can increase or decrease over the life of the lease term.

The Appraiser must estimate and report the value of the Leasehold Interest using the calculation in the box below. The Appraiser must provide support for the capitalization rate selected.

Calculation of the Leasehold Interest
Formulas:
Value of Leased Fee = Ground Rent / Capitalization Rate
Value of Leasehold = Value of Fee Simple - Value of Leased Fee

In valuing the Leasehold Interest, the Appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section of the sales adjustment grid.

d. Mixed Use One- to Four-Unit Single Family Properties

i. Definition

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

ii. Required Analysis and Reporting

The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include business valuation or the value of Personal Property or business fixtures in the appraisal.

The Appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the Property is allocated to residential use, and what portion is allocated to non-residential use.

The Appraiser must provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential Property.

8. Additional Appraisal Requirements for 223(e) Mortgages

Section 223(e) is a mortgage insurance program for Properties located in older, declining urban areas. The program allows for the acquisition, repair, and/or renovation or construction of a residential Property.

The Appraiser must provide a remaining physical life in addition to the remaining economic life if the Mortgagee orders an appraisal for a Property to be insured under the 223(e) program.

9. Unimproved Property Appraisal

a. Definition

Unimproved Property Appraisal refers to the valuation of an interest in land without human made Structures.

b. Standard

An Unimproved Property Appraisal may be warranted when:

- the Property does not include building improvements;
- the prior improvements on the Property were demolished;
- the improvements are in such deteriorated condition as to provide no Contributory Value to the Property; or
- condemnation proceedings by the local authority have acquired the improvements in part or in their entirety.

c. Required Analysis and Reporting

The Appraiser must provide a written narrative format or a commercially available reporting form. The appraisal report must include, at minimum, the following:

- property address;
- legal description;
- owner of record;
- occupancy;
- assessment and tax information;
- property rights appraised;
- site size;
- zoning;
- highest and best use;
- shape;
- topography;
- drainage;
- availability of utilities;

- if it is located within a FEMA-designated SFHA;
- a sales grid, including:
  - detailed information on at least three comparable sales;
  - a quantitative comparison of those property attributes to the subject; and
  - a comparison of the number of comparable unimproved properties sold with the number of offered and listed for sale to determine supply and demand, absorption rate, and other market data required so that the report is not misleading;
- certification and limiting conditions as included in the *URAR*, Fannie Mae Form 1004/Freddie Mac Form 70; and
- any other forms and documentation necessary to comply with USPAP Standard 2.

When completing the sales grid, the Appraiser must compare and appropriately adjust the sales of comparable unimproved building lots or sites for differences in location, size, zoning, utility connection or availability of utility connection, site improvement and any other pertinent factors. The Appraiser must then reconcile the adjusted sales into a value conclusion.

The Appraiser must calculate and extract any costs to be incurred from razing the existing improvements and cleaning up the site from the value of the supporting land to arrive at a final conclusion of value of the site as if vacant and ready to be put to its highest and best use.

10. Update of Appraisal

Appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005 when requested by the Mortgagee.

The Appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form, which includes an exterior inspection of the subject Property from, at least, the street; and research, analyze and verify current market data to determine whether the Property has or has not declined in value since the effective date of the appraisal report being updated.

If the Appraiser concurs with the original appraisal report and determines that the value has not declined, the Appraiser must indicate this on the form, provide any necessary comments, and provide a photo of the front of the subject Property taken from the public street. If the Appraiser does not concur with the original data report or the Property Value has declined, the Appraiser must indicate this on the form and a photo is not required.

11. Market Conditions Addendum, Fannie Mae Form 1004MC/Freddie Mac Form 71, Instructions Applicable to FHA Appraisals

a. Standard

The Appraiser must complete the Fannie Mae Form 1004MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report*, for all appraisal assignments. The analysis and valuation of FHA-insured Properties must properly analyze and address market trends in the subject's market. Whether these trends are positive, neutral or negative, proper data

collection and reporting are imperative components of a complete market conditions analysis; this is most important where markets are demonstrating negative trends.

b. Required Analysis and Reporting

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the "Neighborhood" section of the appraisal report form. The Appraiser's analysis and conclusions must be based on the information reported on this form. The Appraiser's study of the market affecting the subject Property must include sufficient data for a statistical analysis to be relevant.

The Appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated. If any required data is unavailable or is considered unreliable, the Appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the form; if it is available, however, the Appraiser must include the data in the analysis.

If data sources provide the required information as an average instead of the median, the Appraiser must report the available figure and identify it as an average. The Appraiser must explain any anomalies in the data, such as seasonal markets, New Construction, foreclosures, etc.

12. Programs and Products

a. Section 248 Indian Land Program

i. Property Rights to be Appraised

The Appraiser must identify the interest to be appraised based on the type of ownership.

(A) Fee Simple Unrestricted

Fee Simple Unrestricted ownership refers to ownership in Real Property that may be bought, sold and transferred between Native American and non-Native American purchasers without review by the tribe or the Bureau of Indian Affairs (BIA).

(B) Tribal Trust Lands, Restricted Trust Land

(1) Standard

The FHA Section 248 program insures Mortgages on houses that are located on Indian tribal trust land or Restricted Trust Lands. For these Properties, leased ownership of the underlying land remains with the tribe and will be subject to a

long-term, 50-year ground lease (or a 25-year lease with a 25-year renewable term).

(2) Required Analysis and Reporting

The Appraiser must determine the value for the Leasehold Estate using the analysis and reporting guidance on Leasehold in this *SF Handbook*.

ii. Access to Property

Tribally owned and maintained streets and utilities are considered publicly owned. The Appraiser must report Easements and maintenance agreements for non-public, common ownership interests that affect the access and utility of the Property.

iii. Approaches to Value

The Appraiser must be familiar with the applicable ownership and use restrictions and develop a credible value for the Property. The supply of comparable sales and rental transactions varies by site and by tribe. Until sufficient sales exist on a reservation or within the specific Indian area to provide a reasonable sales comparison approach for determining the value of tribal trust Leaseholds or allotted land sales, the Appraiser must rely on other value indicators. The appraisal process must be documented more thoroughly than a typical market appraisal. USPAP Standards #1 and #2 are effective in allowing the Appraiser to "correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal." In addition, "in reporting the results of a Real Property appraisal an appraiser must communicate each analysis, opinion and conclusion in a manner that is not misleading." An appraisal on trust land may rely more on the cost approach or data developed from other tribes. HUD will accept the report if the Appraiser has documented the research, information developed and conclusions clearly for the intended users to understand.

iv. Cost Approach to Value

The cost approach is often the primary indication of value based on the unique nature of land rights in the reservation. The value of the site as vacant will depend on the property rights held by an individual. If the Appraiser's analysis indicates that the value of the site may be zero or a small Leasehold value, the Appraiser must enter this information in the "Cost Approach" section of the form and enter the statement "subject is on Tribal Trust Land with annual rent not capitalized" in the "Comments" section. If a market exists and an interest in the land was purchased, the value is estimated via traditional cost approach methods described in this *SF Handbook*.

(A) Cost Approach for New Construction

The following are instructions specific to New Construction on tribal lands.

In addition to including the cost of water, septic, and any other onsite costs in the cost approach, for lands within the reservation the Appraiser may provide an allowance for off-site development costs. The lesser of actual pro-rated costs or up to 15 percent of the cost of the construction of the subject house may be added for off-site infrastructure associated with development of the subject lot. This policy applies principally to New Construction where such charges are assessed by tribally approved entities, such as housing entities or housing authorities, or agreements with other federal or local government bodies for providing power, utilities, sewer, water or road construction. The costs to bring utilities, including public water, sewer, electricity and telephone, to sites represent significant development costs. The traditional tract development of residential houses may not be a part of the local culture. Therefore, the utility costs to hook up to any form of a public system in a more rural area can exceed local standards.

In remote areas, the construction costs in construction cost manuals may have to be adjusted for transportation, labor or other costs not included in the basic estimate. Architect fees are not typically reflected in the base building costs. Due to special circumstances, the normal allocation for this fee may not automatically reflect the above actual cost. The Appraiser must provide a supporting explanation for the adjustments to the construction costs.

(B) Cost Approach for Existing Construction

Where market sales are limited, FHA requires the cost approach to be completed on all tribal trust appraisals, including a credible estimate of depreciation. In addition to developing the cost approach described in this *SF Handbook* the Appraiser must report the following:

1. the name of the cost service;
2. the source and date, if electronic version. Upload as an exhibit into the report when available;
3. the page numbers of cost tables or factors, if paper version. The reviewer or reader must be able to replicate;
4. all current multipliers applicable to locale and time as updated and published by the cost service used; and
5. depreciation due to normal aging, which may be derived from the tables in the cost service book.

A computer-generated cost analysis is acceptable in place of the above as long as the printout contains sufficient information to verify that all significant property features have been properly addressed in the cost analysis.

v. Sales Comparison Approach to Value

The Appraiser must follow the sales comparison approach instructions outlined in this *SF Handbook*. In addition to the typical data sources the Appraiser must obtain sales

information from the local tribal or BIA realty office if available. The Appraiser may consider sales from other reservations within the region if appropriate.

The order of selection preferences for sales depends upon the type of interest in the land being appraised:

- tribal trust Leasehold sales (market sales between tribal members);
- sales of allotted land trust between tribal members;
- Fee Simple within the reservation (residual value of the improvements by adjusting out the land contribution); or
- Fee Simple proximate to the reservation.

The Appraiser must report the property rights in the "Ownership" line of the grid and apply an appropriate adjustment (if any). In addition, the Appraiser must explain the differences in ownership rights of the comparable properties as compared to the subject, and the basis for any adjustment.

vi. Income Approach to Value

If the Appraiser determines that this approach can be credibly completed, refer to the Income Approach section in this *SF Handbook*. If the Property includes a rental unit(s), the Appraiser must provide an estimate of monthly rent for each unit and note if the rent is limited to the tribal sub-market.

vii. Final Reconciliation of Value

The Appraiser must follow the final reconciliation of value instructions outlined in this *SF Handbook*. Where market information is limited and the support for the sales comparison analysis is weaker, the Appraiser may need to place greater consideration on the cost approach.

b. Section 247 Hawaiian Homelands Program

Due to the nature of the title and property rights, the Appraiser must develop the cost for both Existing and Proposed Construction. When appropriate, the Appraiser must attempt to apply the income and sales comparison approaches.

The Appraiser must include the following language in the Appraiser report: "*The value defined for this appraisal is not 'Market Value' as defined in the standard documents of form appraisal reports. This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for Department of Hawaiian Home Lands (DHHL) properties*."

The Appraiser must develop a cost approach from a published cost service in addition to developing the cost approach described in this SF Handbook. The Appraiser's report must include:

- photocopies of all pages used to derive the cost figures, except as noted below;
- application of all current multipliers necessary and published by the cost service;

- no marketing expense to the cost analysis of a DHHL property appraisal because these Properties are not freely marketable;
- entrepreneurial venture may only be included if reasonable profit and overhead are not already included in all costs;
- depreciation due to normal aging, which may be derived from the tables in the cost service book. Depreciation from incurable external or functional obsolescence should be based on verifiable market extractions, by paired-sales analysis and capitalized rent loss.

The Appraiser must include a computer-generated cost analysis as long as the printout conforms to the format of the cost service form and contains sufficient information to verify that all significant property features have been properly addressed in the cost analysis. Accordingly, the Appraiser will not be required to supplement a computer-generated cost analysis with photocopies from the cost service book.

c. Standard 203(k) and Limited 203(k) Rehabilitation Mortgages

The Appraiser may be asked to perform two separate types of valuation by the Mortgagee for Standard 203(k) and Limited 203(k) Rehabilitation Mortgages. The Mortgagee may order both reports from the same Appraiser or select two different Appraisers for the two valuation assignments.

If a Mortgagee requires both an as-is and an after-improved value of the Property, the case will require two separate appraisal assignments and reports:

- an analysis to provide the as-is value; and
- a separate analysis performed under the hypothetical condition that the repairs have been completed.

i. Appraisal of the Property "As Is"

(A) Standard

Assignment conditions for this appraisal are the same as in all FHA appraisal assignments, except that the value of the Property is to be estimated "as is" even though the Property may not meet the Property Acceptability Criteria required for FHA-insured Properties.

(B) Required Analysis and Reporting

The Appraiser must provide an analysis and report of the value of the subject Property "as is." If the Appraiser observes property conditions that do not meet the Property Acceptability Criteria, the Appraiser must report those items or conditions and note that the Property, in its "as is" condition, does not meet the Property Acceptability Criteria for an FHA-insured Mortgage. This appraisal must not be rendered "subject to repairs."

ii. After Improved Value of the Property

(A) Definition

After Improved Value refers to the value as determined by the Appraiser based on a hypothetical condition that the repairs or alterations have been completed.

(B) Standard

The Appraiser must provide an "After Improved Value." The Appraiser must make the appraisal "subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed."

(C) Required Analysis and Reporting

The Appraiser must review the 203(k) Consultant's Work Write-Up or the contractor's proposal and Cost Estimates. The Appraiser must notify the Mortgagee of any health and safety issues in the Property that are not addressed in the Work Write-Up or proposal. When the Consultant or contractor has modified the Work Write-Up or proposal, the Appraiser must complete the appraisal based on the final Work Write-Up or the contractor's final proposal and Cost Estimates.

The Appraiser must include the Work Write-Up or proposal as an exhibit to the appraisal report.

d. Special Energy-Related Building Components

i. Special Energy Components

(A) Definition

A Special Energy System refers to any addition, alteration, or improvement to an existing or new Structure that is designed to utilize wind, geothermal or solar energy to produce energy to support the habitability of the Structure.

(B) Standard

Active, passive and photovoltaic solar energy systems are permitted in this program. Solar collectors must be located where they will be free from natural or man-made obstructions to the sun. Special Energy Systems not part of the real estate must not be included in the appraised value.

(C) Required Analysis and Reporting

The Appraiser must analyze and report the local market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components, geothermal systems, and wind powered components.

ii. Other Energy Related Building Components

(A) Definition

Other Energy Related Building Components refer to components in the Property designed to reduce energy requirements.

(B) Required Analysis and Reporting

The Appraiser must note which features are installed in a house and calculate how each component affects the value of the Property.

iii. Measurement and Reporting of Contribution to Value

(A) Definition

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.

(B) Standard

Measurement of the Contributory Value of the component is accomplished by the application of techniques based on one or more of the recognized three approaches to value: cost approach, income approach, and sales comparison approach. Each of these recognized methods and techniques requires the Appraiser to collect, verify, and analyze all information necessary for credible assignment results.

(C) Required Analysis and Reporting

The Appraiser must apply all appropriate methods and techniques necessary for credible assignment results.

(D) Sales Comparison Based Extraction Method

If there is sufficient data based on direct sales comparison to produce credible results, the Appraiser must calculate the adjustment and explain the methodology and analysis supporting the method and results in the appraisal report. The Appraiser must apply the extracted adjustment to the comparable sales and include the reasoning that supports the analyses, opinions, and conclusions in the report.

If there is insufficient data to perform a matched pairs analysis the Appraiser must analyze and report one of the approaches below to calculate an appropriate adjustment.

(E) Cost Approach Based Method

The Appraiser must include the details of the item(s) being valued and measure the Contributory Value of the component(s) to the whole by calculating the cost of the

item less accrued depreciation. The Appraiser must include consideration of physical depreciation, functional obsolescence (including superadequacies) and external obsolescence in the estimate of accrued depreciation and apply the resulting calculation of the Contributory Value to the comparable sales.

(F) Income Approach Based Methods

(1) Gross Rent Multiplier Method

If the Property is located in a market where the Appraiser can calculate a GRM, and rental data for properties with similar special energy components is available, the Appraiser must extract an adjustment relevant to the rental value of the feature from the analysis of those similar rentals and apply the appropriate GRM factor to calculate an adjustment for the comparable sales.

(2) Net Income/Savings Capitalization Method

The Appraiser may use an income approach solution based on capitalization of savings attendant to the alternative energy source. The Appraiser may estimate the present value of the future benefit using the discounted cash flow technique or commercially available tools; however, the Appraiser must be competent to use them and provide an explanation of the analysis.

(G) Reconciliation of the Approaches

The Appraiser may elect to utilize some of the tools and training available from professional organizations and energy-related firms. The Appraiser must provide a credible analysis and reconciliation explaining the methodology and support for the adjustment.

As related to special building components, the Appraiser must provide an analysis of the information and conclusions supporting the application of adjustments.

The Appraiser must reconcile all the methods utilized and resolve to a final opinion of the adjustment, analyzing both the quantity and quality of available data.

e. HUD Real Estate Owned Properties

i. Definition

A HUD REO Property, also known as a HUD home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure on an FHA-insured Mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

ii. Standard

An appraisal may be ordered on a HUD REO Property as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(A) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD REO Property.

(B) Intended Use of Appraisal

The intended use of the appraisal for a HUD REO Property is as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(C) Intended User

The intended user of an appraisal of a HUD REO Property is HUD/FHA or its contractors.

iii. Required Analysis and Reporting

(A) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser's observations. The Appraiser must support this description with photographs when warranted.

(B) Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

(C) Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales and other non-arm's length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide

additional explanation and support in the "Analysis" section of the sales comparison approach.

Transfers to a Mortgagee or Entity that owns the Mortgage by deed of trust, through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

Appraisers must exercise due diligence and care in the research and validation of REO sales to ensure similarity to the subject, especially in physical condition.

(D) Appraisal Conditions

The Appraiser must provide an analysis and report of the value of the subject Property "as is." The appraisal report must include the applicable property specific appraisal reporting form, all required exhibits, and a copy of the PCR.

For Manufactured Housing, the Appraiser must **not** require a certification that the foundation complies with the PFGMH.

(E) Extraordinary Conditions

The as-is value can be impacted by extraordinary conditions. If the Property has an illegal use or an extraordinary condition, the Appraiser must estimate the cost to bring the Property into compliance with zoning or typical marketability. The Appraiser must report whether any grandfathered use is allowed. The Appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

(F) Statement of Insurability

The Appraiser must include a Statement of Insurability in the "Comments" section of the appraisal report.

(1) Insurable

The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MPS without needing repairs.

(2) Insurable With Repair Escrow

If the Property requires no more than $5,000 in repair, the Appraiser must state that the Property is insurable with a repair escrow.

(3) Uninsurable

If the cost of repairs is greater than $5,000, the Appraiser must state that the Property is uninsurable.

(G) Submitting the Appraisal

The submission of the appraisal report and data is uploaded in HUD's P260 Web-based Internet Portal or subsequent system.

The Appraiser must obtain a completed copy of the PCR from the contractor and submit the PCR with the appraisal report.

(H) Claims Without Conveyance of Title Properties

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Claims Without Conveyance of Title (CWCOT) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for calculating the Commissioner's Adjusted Fair Market Value (CAFMV) (24 CFR § 203.368).

(3) Intended User

FHA is the intended user of a CWCOT appraisal.

(4) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. If the Appraiser cannot enter the Property, the Appraiser may perform the valuation based on an exterior-only inspection on the Fannie Mae Form 2055/Freddie Mac Form 2055, *Exterior-Only Inspection Residential Appraisal Report*, dated March 2005, or the Fannie Mae Form 1075/Freddie Mac Form 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*, for a condominium Property. The Appraiser must indicate that the Property could not be entered and identify the sources of the factual property data employed by the Appraiser in determining the value.

(5) Appraisal Conditions

CWCOT 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. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

(I) Pre-Foreclosure Sale Program

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Pre-Foreclosure Sale (PFS) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for determining the list price of a HUD PFS Property (24 CFR § 203.370).

(3) Intended User

FHA is the intended user of a PFS appraisal.

(4) Sales Comparison Approach

Sales selection requirements for PFS are the same as the sales comparison approach in the REO section of this *SF Handbook*.

(5) Appraisal Conditions

PFS 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. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

C. CONDOMINIUM PROJECT APPROVALS

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to Condominium Projects in FHA programs.

III. SERVICING AND LOSS MITIGATION

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees, Servicers and any other interested participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

IV. CLAIMS AND DISPOSITION

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees, Servicers and any other interested participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

The Quality Control, Oversight and Compliance section in this *FHA Single Family Housing Policy Handbook (SF Handbook)* covers quality control requirements, Federal Housing Administration (FHA) monitoring of Mortgagees, and enforcement actions FHA may take if its requirements are violated. This section covers Title I lenders, Title II Mortgagees, and other FHA program participants. The term "Mortgagee" is used throughout for all types of FHA approval (both Title II Mortgagees and Title I lenders) and the term "Mortgage" is used for all products (both Title II Mortgages and Title I loans), unless otherwise specified.

A Mortgagee must fully comply with all of the following requirements in order to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II Mortgages.

If there are any exceptions or program-specific requirements that differ from those set forth below, the exceptions or alternative program requirements are explicitly stated or hyperlinked to the appropriate guidance. Terms and acronyms used in this *SF Handbook* have their meanings defined in the Glossary and Acronyms or in the specific section of the *SF Handbook* in which the definitions are located.

A. QUALITY CONTROL OF LENDERS AND MORTGAGEES

1. Quality Control Program Overview

a. Purpose of Quality Control Program

Quality Control (QC) Programs must be designed to:

- ensure compliance with FHA and Mortgagee policy and guidelines related to FHA Loan Administration;
- protect FHA and the Mortgagee from unacceptable risk;
- guard against errors, omissions, negligence, and fraud from those involved in the Mortgagee's Loan Administration;
- determine the root cause of any deficiencies and identify potential internal and external control weaknesses;
- alert Mortgagee management to patterns of deficiencies with respect to mortgage process and personnel;
- ensure timely and appropriate corrective action;
- ensure the existence of required documentation (e.g., credit, loan, and appraisal information) that is the basis of underwriting and servicing decisions;
- ensure Mortgages are secured by properties with values sufficient to support the Mortgage; and
- ensure compliance with fair lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act (ECOA).

b. Definitions

i. Quality Control Program

A Quality Control (QC) Program is the process and written procedures through which the Mortgagee seeks to ensure that FHA operations and loan quality are in compliance with all applicable requirements.

ii. Quality Control Plan

A Quality Control (QC) Plan is a written plan that sets forth a Mortgagee's procedures for ensuring quality control. A QC Plan is the written element of a Mortgagee's QC Program.

iii. Loan Administration

Loan Administration refers to all aspects of the FHA mortgage lifecycle, including origination, underwriting, closing, endorsement, and servicing of FHA-insured Mortgages that are governed by FHA policies and procedures.

c. Standard

The Mortgagee must adopt and implement a QC Program that fully complies with the requirements of this *SF Handbook*, and, where applicable, the additional Multifamily QC requirements outlined in the *Multifamily Accelerated Processing (MAP) Guide*, 4430.G. The Mortgagee must maintain and update its QC Program as needed to ensure it is fully compliant with all applicable FHA requirements at all times.

The QC Program must cover the lifecycle of an FHA-insured Mortgage, including origination, underwriting, closing, endorsement, and servicing functions that are conducted by the Mortgagee.

The QC Program must cover all policies and procedures, whether performed by the Mortgagee or outsourced to a contractor, to ensure full compliance with FHA requirements for Loan Administration.

The QC Program must provide the Mortgagee's management with information sufficient to adequately monitor and oversee the Mortgagee's compliance, and measure performance as it relates to the Mortgagee's FHA mortgage activity.

d. Required Documentation

The Mortgagee must document the existence of its QC Program and evidence of its implementation, including written procedures, QC reports, and corrective action plans.

i. Time Frame for Retention

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings, for a period of two years from the initial QC review, or from the last action taken to mitigate Findings, whichever is later.

ii. Production of Documents

The Mortgagee must make all documentation relating to its QC Program available to FHA at any time upon request.

2. Institutional Quality Control Program Requirements

a. Who May Perform Quality Control

The Mortgagee may use employees or contractors to perform QC functions in accordance with the following requirements.

i. Employees

The Mortgagee must ensure that employees who perform QC Program functions are, at all times, independent of all Loan Administration processes and do not directly

participate in any of the Loan Administration processes represented in the QC Plan. The Mortgagee must ensure QC employees are not within any chain of reporting or management that is directly connected to Loan Administration staff.

ii. Contractors

The Mortgagee may contract with outside vendors to perform QC functions if:

- the Mortgagee assumes full responsibility for the contractor's conduct of QC reviews in compliance with FHA requirements;
- the Mortgagee and the contractor have a valid contractual agreement in place that specifies the roles and responsibilities of each party; and
- the Mortgagee acknowledges that the existence of such contract for the provision of QC services does not satisfy the Mortgagee's obligation to have a written QC Plan that fully complies with FHA requirements.

b. Operational Compliance

The Mortgagee must ensure that its QC Plan provides for the following required reviews.

i. Personnel

(A) Training

(1) Loan Administration and Quality Control Processes

(a) Standard

The Mortgagee must train all staff involved in FHA Loan Administration and QC processes to ensure that staff know all current FHA requirements for the FHA Loan Administration practices for which the Mortgagee is responsible.

(b) Required Documentation

The Mortgagee must maintain a list of all training provided to staff. For each training, the Mortgagee must include a summary of the content covered.

(2) Access to FHA Guidance

(a) Standard

The Mortgagee must provide all Loan Administration and QC staff with access to current FHA guidance including Handbooks, Mortgagee Letters (ML), Frequently Asked Questions (FAQ), and other guidance issued by FHA.

(b) Required Documentation

The Mortgagee must confirm that all Loan Administration and QC staff have access to the Internet or to hard copies of current FHA guidance.

(B) Restricted Participation

(1) Standard

The Mortgagee must confirm it verified, through each of the following systems, that the designated employees and/or Affiliates listed below were permitted to participate in FHA programs. If any of the designated employees and/or Affiliates are found to be ineligible, they are restricted from participating in FHA programs.

Checks to verify employee eligibility must be conducted at least semiannually.

(a) Excluded Parties List

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in U.S. Department of Housing and Urban Development (HUD) programs for or on behalf of the Mortgagee, using the System for Award Management (SAM) Excluded Parties List.

(b) Limited Denial of Participation

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in HUD programs for or on behalf of the Mortgagee, using the Limited Denial of Participation (LDP) list.

(c) National Mortgage Licensing System and Registry

The Mortgagee must verify that all employees and Affiliates participating in HUD programs for or on behalf of the Mortgagee are registered with the National Mortgage Licensing System and Registry (NMLS), unless excluded from NMLS requirements by law or regulation.

(2) Required Documentation

Mortgagees must maintain copies of each employee's eligibility verification print-outs.

ii. Affiliate Quality Control Reviews

(A) Standard

The Mortgagee must perform QC reviews of its Affiliates in the same manner and under the same conditions as required for the Mortgagee's own operations. At a minimum, Affiliate monitoring must include a periodic (semiannual at a minimum) re-verification of the Affiliate's compliance with all applicable laws related to licensing, qualification, eligibility, or approval to originate or subservice Mortgages.

(B) Required Documentation

The Mortgagee must document the methodology used to review Affiliates, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review and monitor a Mortgagee's Affiliates must be included in the Mortgagee's QC Plan.

iii. Fair Housing and Fair Lending

The Mortgagee must verify that its operations comply with applicable state and federal fair lending laws, including the following:

- Fair Housing Act (42 U.S.C. § 3601 et seq.)
- ECOA (15 U.S.C. § 1691 et seq.)
- Federal Truth in Lending Act (15 U.S.C. § 1601 et seq.)

(A) Rejected Mortgage Applications

(1) Standard

The Mortgagee must review a random statistical sample of rejected applications within 90 Days from the end of the month in which the decision was made. Reviews must be conducted on a monthly basis and ensure that:

- the reasons given for rejection were valid;
- each rejection has the concurrence of an officer, senior staff person, or underwriter with sufficient approval authority, or a committee chaired by an officer, senior staff person, or underwriter with sufficient approval authority;
- the requirements of the ECOA are met and documented in each file; and
- no civil rights violations were committed in the rejection of the application.

Where possible discrimination is noted, the Mortgagee must take immediate corrective action to ensure its operations comply with applicable state and federal fair lending laws.

(2) Required Documentation

The Mortgagee must document the methodology used to review rejected applications, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review rejected applications must be included in the Mortgagee's QC Plan.

(B) Fair Housing Poster and Equal Housing Opportunity Logo

(1) Standard

The Mortgagee must verify that a fair housing poster is prominently displayed in the Mortgagee's home office and any branch offices that deal with Borrowers and the general public. The Mortgagee must verify that the equal housing opportunity logo is prominently displayed on all documents, including both hard copy and electronic documents, distributed by the Mortgagee to the public.

(2) Required Documentation

The Mortgagee must confirm that a fair housing poster is prominently displayed in the Mortgagee's offices. The Mortgagee must be able to demonstrate that all documents distributed by the Mortgagee to the public contain the equal housing opportunity logo.

(C) Fair Housing or Discrimination Violations

(1) Standard

Potential fair housing violations or instances of discrimination must be reported to HUD's Office of Fair Housing and Equal Opportunity (FHEO) immediately.

(2) Required Documentation

Fair housing violations and complaints may be reported online using the HUD Form 903 Online Complaint, contacting HUD's local FHEO Regional Office or by calling the Fair Housing Complaint Hotline at 1-800-669-9777.

iv. Escrow Funds

(A) Standard

The Mortgagee must verify that escrow funds received from Borrowers were used only for the purpose for which they were received, and are in compliance with all Consumer Financial Protection Bureau (CFPB) escrow requirements.

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

v. Mortgage Insurance Premiums

(A) Standard

The Mortgagee must verify that FHA Mortgage Insurance Premiums (MIP) were remitted to FHA within the required time period or, if not, that the remittance included late charges and interest penalties. Mortgagees must address any pattern of late submissions and promptly take corrective measures.

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

vi. Timely and Accurate Submission for Insurance

(A) Standard

The Mortgagee must verify that Mortgages are being submitted to FHA for insurance within the required time frames (see Case Binder Submission – Direct Endorsement Non-Lender Insurance).

(B) Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

vii. Advertising

(A) Standard

The Mortgagee must review all advertisements generated by the Mortgagee or on its behalf to verify compliance with HUD/FHA advertising requirements (see Advertising). The Mortgagee must take prompt corrective action upon discovering any violation of advertising requirements described in this *SF Handbook*.

(B) Required Documentation

The Mortgagee must retain copies of any Advertising Device the Mortgagee produces, or that is produced on the Mortgagee's behalf, that is related to FHA programs. The Mortgagee must retain samples of the advertising reviewed, the results of each review, and any corrective actions taken as a result of review Findings.

c. Identifying Patterns

i. Standard

The Mortgagee must review its loan performance data to identify any patterns of non-compliance.

ii. Required Documentation

The Mortgagee must document the methodology used to review patterns of non-compliance, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review patterns of non-compliance must be included in the Mortgagee's QC Plan.

Mortgagees may use HUD's Neighborhood Watch Early Warning System (Neighborhood Watch) to assist with identifying patterns.

d. Fraud, Misrepresentation, and Other Findings

i. Definitions

(A) Finding

A Finding is a final determination of defect by the Mortgagee.

(B) Material Finding

In the context of mortgage origination and underwriting, a Finding is Material if disclosure of the Finding would have altered the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage.

In the context of mortgage servicing, a Finding is Material if it has an adverse impact on the property and/or FHA.

(C) Mitigated Finding

A Finding has been Mitigated if the Mortgagee has adequately addressed the deficiencies underlying the Finding, and such deficiencies have been remedied so that the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage is acceptable to FHA.

ii. Standard

The Mortgagee must monitor all FHA-insured Mortgages it originates, underwrites, services, or purchases, including those Mortgages originated by sponsored Third-Party Originators (TPO), for potential fraud, material misrepresentations, or other Material Findings.

Suspected instances of fraud, material misrepresentations, and other Material Findings must be investigated and documented by the Mortgagee's QC team, who must determine whether or not fraud or material misrepresentation actually occurred, or whether Material Findings exist.

iii. Internal Reporting to Senior Management

The Mortgagee's written QC Plan must contain a process for QC staff to report Findings identified through the QC process to senior management that complies with the following requirements.

(A) Time Frame for Reporting

Initial review Findings must be reported to the Mortgagee's senior management within 30 Days of completion of the initial Findings report. The Mortgagee's final report must be issued within 60 Days from the date the initial review Findings were reported to senior management.

(B) Corrective Action Plan

Mortgagee senior management must review and respond to each instance of fraud, material misrepresentation, or other Material Finding. The Mortgagee's final report must identify the corrective and curative actions being taken, the timetable for completion, and any planned follow-up activities.

(C) Follow Up

The Mortgagee must discuss all Findings with the responsible party(ies) in order to ensure corrective action and to prevent similar Findings from occurring in the future.

iv. External Reporting to FHA

(A) Fraud and Material Misrepresentation

The Mortgagee must report to FHA all Findings of fraud and material misrepresentation.

(B) Material Findings

The Mortgagee must report to FHA any Material Findings concerning the origination, underwriting, or servicing of a Mortgage that the Mortgagee is unable to mitigate.

(C) Mitigated Findings

Findings that do not involve fraud or material misrepresentation and were already Mitigated by the Mortgagee do not have to be reported to FHA.

(D) Time Frame for Reporting

The Mortgagee must report any Findings of fraud or material misrepresentation to FHA immediately.

The Mortgagee must report all other Material Findings that the Mortgagee is unable to mitigate to FHA no later than 90 Days after the completion of the initial Findings report.

(E) Corrective Action Plan

For all Findings that must be reported, the Mortgagee must identify what actions have been taken to attempt to mitigate each Finding, and report any planned or pending follow-up activities.

(F) Method of Reporting

The Mortgagee must use the Lender Reporting feature in Neighborhood Watch to report Findings to FHA. FHA may request supporting documentation, including the endorsement case binder, the QC report, and any other documentation necessary for FHA to fully evaluate the Finding.

(G) Suspected HUD Involvement

If the Mortgagee suspects HUD employees or contractors were involved in fraud or material misrepresentation, the Mortgagee must refer the matter directly to HUD's Office of Inspector General (OIG) through the HUD OIG website, by sending a written referral to the HUD OIG Hotline at 451 7th Street, SW, Room 8254, Washington, DC 20410, or by fax at (202) 708-4829.

v. Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

3. Loan Level Quality Control Program Requirements

Mortgagees must perform QC reviews of FHA-insured Mortgages the Mortgagee and its Affiliates originate, underwrite, or service.

a. Loan File Selection

i. Time Frame for Selection and Review

(A) Pre-Closing Reviews

Mortgagees must select Mortgages for pre-closing reviews on a monthly basis. Mortgages selected for pre-closing review must be reviewed after the Mortgage is approved by an FHA Direct Endorsement (DE) underwriter, and prior to closing.

(B) Post-Closing Reviews

Mortgagees must select Mortgages for post-closing reviews on a monthly basis. The selection must be comprised of loans closed in the prior one-month period. Mortgages selected must be reviewed within 60 Days from the end of the prior one-month period.

(C) Early Payment Default Reviews

Mortgagees must select Early Payment Defaults (EPD) for review on a monthly basis. EPDs selected must be reviewed within 60 Days from the end of the month in which the loan was selected.

(D) Servicing Reviews

Mortgagees must select Mortgages for servicing reviews on a monthly basis. Mortgages selected for servicing reviews must be reviewed within 60 Days from the end of the month in which the loan was selected.

ii. Scope

The Mortgagee's QC Plan must provide for the thorough evaluation of all Loan Administration functions for which the Mortgagee is responsible. The Mortgagee must expand the scope of the QC review as appropriate when fraud or patterns of deficiencies are uncovered.

iii. Sample Size Standard

The Mortgagee's QC Plan must provide for a combination of both pre-closing and post-closing reviews. The Mortgagee's QC Plan must provide for review of an appropriately sized, statistically valid sample that complies with the following.

The Mortgagee must calculate its FHA QC sample size separately for FHA-insured Mortgages it originates/underwrites versus services.

(A) 3,500 or Fewer FHA-Insured Mortgages per Year

Mortgagees that originate/underwrite or service 3,500 or fewer FHA-insured Mortgages per year must review a minimum of 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services.

(B) More Than 3,500 FHA-Insured Mortgages per Year

Mortgagees that originate/underwrite or service more than 3,500 FHA Mortgages per year must review either 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services, or a stratified random sample that provides a 95 percent confidence level with a 2 percent statistically valid confidence interval.

For origination and underwriting reviews, the stratification should be based on mortgage product type and the source of origination. For servicing reviews, the stratification should be based on servicing function.

(C) Percent of Pre- and Post-Closing Reviews

The Mortgagee's required FHA QC sample size must comply with the following balance of pre- and post-closing reviews:

Type of Review	% of FHA QC Sample Size
Pre-Closing Review	10% or less
Post-Closing Review	90% or more

(D) Exception

Mortgagees that close nine or fewer loans during the prior one-month period must select a minimum of one loan each month for pre-closing review.

iv. Sample Composition Standard

The Mortgagee's QC Plan must contain provisions to select FHA-insured Mortgages for review via random, EPDs, and discretionary sample selection methods that meet the following conditions. Only random and discretionary samples may be included in the sample size standard.

(A) Random

The Mortgagee must select FHA-insured Mortgages through the use of statistical sampling such that each of the Mortgagee's FHA-insured Mortgages has an equal chance of being selected. The random sample must be drawn from all of the Mortgagee's FHA-insured Mortgages, regardless of origination source or program type.

(B) Early Payment Defaults

(1) Definition

Early Payment Defaults (EPD) are all Mortgages that become 60 Days delinquent within the first six payments.

(2) Standard

The Mortgagee must review *all* EPDs underwritten by the Mortgagee, regardless of which Mortgagee services the Mortgage. Mortgagees may use Neighborhood Watch to assist with identifying EPDs.

(C) Discretionary

The Mortgagee must focus discretionary samples on programs, participants, or sources that represent a high level of risk, which may include disproportionate loan volume, default rates, new relationships, or concentration in soft market areas.

v. Required Documentation

The Mortgagee must document how the sample size and selections were determined.

b. Loan Sample Risk Assessment

i. Definition

A Loan Sample Risk Assessment is a method of evaluating loans selected for QC on the basis of the severity of the violations found during QC reviews.

ii. Standard

Mortgagees must establish a Loan Sample Risk Assessment methodology. At a minimum, the methodology must include the categories of risk described below.

The Mortgagee must compare one month's QC sample to previous QC samples in order to conduct trend analysis.

iii. Risk Categories

(A) Low Risk

No issues or minor variances were identified with the origination, underwriting, or servicing of the Mortgage.

(B) Moderate Risk

The records contained unresolved questions or missing documentation. Issues were identified pertaining to processing, documentation, or decisions made during Loan Administration, but none were material. Failure to resolve these issues created a moderate risk to the Mortgagee and to FHA.

(C) Material Risk

The issues identified during the review contained Material Findings which represent an unacceptable level of risk.

iv. Required Documentation

The Mortgagee must document the methodology used to establish the loan sample risk assessment system and conduct trend analysis.

c. Origination and Underwriting Loan File Compliance Review

i. Minimum Requirements

At a minimum, Mortgagees must include the following areas in their QC review to ensure they meet the requirements outlined in the Origination Through Post-Closing/Endorsement section of this *SF Handbook*:

Requirement	Pre-Closing Review	Post-Closing Review
Appraisal	✓	✓
Mortgage application, eligibility, and underwriting documents	✓	✓
Disclosures and legal compliance	✓	✓
Mortgage origination documents	✓	✓
Handling of mortgage documents	✓	✓
Borrower occupancy		✓
Credit reports	✓	✓
Outstanding debt obligations	✓	✓
Verifications of employment and deposit	✓	✓
Self-employed Borrowers	✓	✓
Borrower's source of funds	✓	✓
Underwriting accuracy and completeness, including compensating factors	✓	✓
Property Flipping restrictions	✓	✓
Prohibited restrictive covenants	✓	✓
Qualified Mortgage (QM)	✓	✓
Good Faith Estimate (GFE)	✓	✓
Discrepancies in the loan file	✓	✓
Condition clearance	✓	✓
Closing procedures and documents		✓
Settlement Statement or other similar legal document		✓
Pre-endorsement review		✓
Timely submission for insurance		✓

ii. Document Review and Re-verification

A Mortgagee's QC Plan for origination and underwriting must provide for the review and re-verification of the following information on all FHA-insured Mortgages selected for pre-closing and post-closing review, unless otherwise specified below.

(A) Credit Report

(1) Standard

For all post-closing reviews, the Mortgagee must obtain a new credit report in the same form as the original credit report used to approve the Mortgage, including a Residential Mortgage Credit Report (RMCR), a Tri-Merged Credit Report (TRMCR), or, when appropriate, a business credit report for each Borrower whose FHA-insured Mortgage is selected for review. The new credit report must comply with the credit report standards described in the Credit Report(s) section of this *SF Handbook*. The Mortgagee must compare the new credit report obtained with the original credit report used to approve the Mortgage, and determine whether any discrepancies exist between the reports that may adversely affect the Borrower's eligibility to qualify for an FHA-insured Mortgage.

If discrepancies exist between the credit reports that may adversely affect the Borrower's eligibility to qualify for an FHA-insured Mortgage, then the Mortgagee must obtain a second, full RMCR from a different credit source. A different credit source refers to the company issuing the credit report, not the credit bureau to which the credit information is reported.

(2) Exceptions

A new credit report does not have to be obtained for pre-closing reviews, or for non-credit qualifying Streamline Refinances.

(3) Required Documentation

The Mortgagee must retain a copy of the new credit report(s).

(B) Income, Employment, Asset, and Housing Expense Information

(1) Re-verification

(a) Standard

The Mortgagee must analyze the validity and sufficiency of all documents contained in the loan file. The Mortgagee must re-verify, in writing or electronically if available, the following:

- employment;
- income;
- assets;
- gift funds;
- source of funds; and
- Mortgage Payments or rental payments.

If a written or electronic re-verification request is not returned to the Mortgagee, the Mortgagee must attempt a telephone re-verification.

(b) Required Documentation

The Mortgagee must retain evidence of the written, electronic, or telephone verification, and document the due diligence.

(2) Discrepancies

(a) Standard

The Mortgagee must evaluate all discrepancies to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by Interested Parties, and that all corrections were proper and initialed. All conflicting information in the original documentation must be resolved with the underwriter. Discrepancies in documentation discovered during pre-closing reviews must be resolved prior to closing.

(b) Required Documentation

The Mortgagee must document any discrepancies and retain copies of information used to resolve such discrepancies.

(C) Appraisals

(1) Standard

(a) Property Appraisal Reviews

The Mortgagee must conduct a review of the property appraisal for all FHA-insured Mortgages chosen for a QC review.

At a minimum, Mortgagees must include the following areas in their QC review of the property appraisal:

- the appraisal data;
- the validity of the comparables;
- the value conclusion (as required by FHA guidance);
- any changes made by the underwriter; and
- the overall quality of the appraisal.

(b) Field Reviews

The Mortgagee must perform targeted field reviews on 10 percent of the FHA-insured Mortgages selected for the monthly post-closing QC sample, as well as on all EPDs. The Mortgagee must select Mortgages for field reviews

based on the factors used for discretionary targeting, as well as the following characteristics:

- property complaints received from Borrowers;
- discrepancies found during QC reviews;
- large adjustments or variances to value;
- comparable sales more than six months old;
- excessive distances from comparables to the subject property;
- repetitive sales activity for the subject property;
- Investor-sold properties;
- identity-of-interest conflicts between Borrower and seller;
- seller identity differs from owner of record;
- HUD Real Estate Owned (REO) sales financed with an FHA-insured Mortgage;
- vacant properties; and
- soft markets.

Field reviews must be performed by licensed appraisers listed on FHA's Roster of Appraisers.

(2) Exceptions

Property appraisal and field reviews do not have to be performed for Streamline Refinances, or for HUD REO sales chosen for QC review where the Mortgagee was not required to order a new appraisal for a property financed with an FHA-insured Mortgage.

Field reviews do not have to be performed for pre-closing reviews.

(3) Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

d. Quality Control Reviews of Specialized Mortgage Programs

i. Standard

QC reviews of specialized mortgage programs (e.g., 203(k), Home Equity Conversion Mortgages (HECM), Energy Efficient Mortgages (EEM), etc.) must monitor compliance with FHA requirements specific to those programs.

ii. Required Documentation

The Mortgagee must retain all QC review results, including all selection criteria, review documentation, Findings, and actions taken to mitigate Findings.

e. Servicing Loan File Compliance Review

i. Minimum Requirements

Mortgagees must review all aspects of their servicing operations, including a review of subserviced Mortgages and activities as they relate to FHA-insured Mortgages, to guarantee that all FHA servicing and loss mitigation requirements are being met. At a minimum, Mortgagees must include the following elements in their QC review to ensure they meet the requirements outlined in the Servicing and Loss Mitigation and Claims and Dispositions sections of this *SF Handbook*:

- servicing records
- document retention and legibility
- non-discrimination policies
- Borrower requests, complaints, and escalated cases
- fees
- transfer of servicing notification and records
- documentation of purchased or acquired Mortgages
- mortgage record changes
- escrow account functions
- force-placed insurance
- prepayments
- MIP
- early default intervention
- loss mitigation
- collection activities
- reporting to credit repositories
- home retention option priority order (waterfall)
- home disposition options
- claims for insurance benefits
- Claims Without Conveyance of Title (CWCOT)
- foreclosure proceedings
- property preservation and conveyance
- deficiency judgments
- Single Family Default Monitoring System (SFDMS) reporting
- Adjustable Rate Mortgages (ARM)
- assumptions
- Presidentially-Declared Major Disaster Areas (PDMDA)
- Hawaiian Home Land Mortgages (Section 247 Mortgages)
- Section 184 Indian housing loans
- Section 222 Mortgages
- Good Neighbor Next Door
- Servicemembers Civil Relief Act (SCRA)
- Section 235 Mortgages

- Section 203(k) Mortgages
- servicing of HECM

f. Ineligible Participants

i. Origination and Underwriting Reviews

(A) Standard

The Mortgagee must verify that none of the participants in the mortgage transactions reviewed were debarred, suspended, under an LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an FHA transaction. This includes participants in an assumption transaction.

Participants in a mortgage transaction may include, but are not limited to, the:

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

The Mortgagee must verify participant eligibility using the SAM Excluded Parties List, the LDP list, and NMLS, as applicable.

(B) Required Documentation

The Mortgagee must maintain copies of each participant's eligibility verification print-outs.

ii. Servicing Reviews

(A) Standard

The Mortgagee must verify that none of the participants in the servicing transactions reviewed were debarred, suspended, under an LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an FHA transaction. This includes participants in a loss mitigation transaction.

Participants in a servicing transaction may include, but are not limited to:

- Borrowers
- underwriters
- real estate brokers
- closing agent
- title company

- employees of the Mortgagee, or Affiliates participating in HUD programs for or on behalf of the Mortgagee, who have influence or control over the evaluation, approval, or outcome of the servicing loss mitigation, or claims transaction.

The Mortgagee must verify participant eligibility using the SAM Excluded Parties List and the LDP list, as applicable.

(B) Required Documentation

The Mortgagee must maintain copies of each participant's eligibility verification print-outs.

4. Data Integrity

a. Standard

The Mortgagee's QC program must include a review of the completeness and accuracy of the information obtained for each Mortgage for all aspects of the Loan Administration process for which a QC sample is selected. The Mortgagee must report all Findings internally to senior management, and to FHA where appropriate.

i. Origination and Underwriting Information

For origination and underwriting, the review must validate all data elements submitted through the Automated Underwriting System (AUS), Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, and FHA Connection (FHAC), and validate that documentation exists in the loan file to support all data used to underwrite the Mortgage.

ii. Endorsement and Insurance Information

For endorsement, the review must validate all data elements submitted through FHAC, and validate that documentation exists in the loan file to support all data used to endorse and insure the Mortgage.

iii. Servicing Information

For servicing, the review must validate mortgage information submitted through FHAC, SFDMS, or Home Equity Reverse Mortgage Information Technology (HERMIT), as applicable.

b. Required Documentation

The Mortgagee must retain the results of each review and any corrective actions taken as a result of review Findings.

B. QUALITY CONTROL OF OTHER PARTICIPANTS

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

C. MORTGAGEE MONITORING

1. Cooperation with HUD Investigations and Reviews

Mortgagees must fully cooperate with any investigation(s) or review(s) undertaken by HUD. Mortgagees must make all Corporate Officers and employees available for interviews and provide information and documents requested by HUD in the format and time frame requested.

2. Institutional Mortgagee Monitoring

a. Title I Lender Monitoring Reviews

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Title I Lenders must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

b. Title II Mortgagee Monitoring Reviews

i. Notice

Mortgagees are given notice prior to FHA monitoring reviews.

ii. Production of Loan Files and Records

Mortgagees must have the files requested by FHA available for review. The Mortgagee must provide all records related to the loans selected for review, including any and all files, whether hard copy or stored, in the Mortgagee's systems that include data or information on the specific loans identified.

iii. Scope

FHA will, in its sole discretion, determine the scope of any monitoring review. FHA may conduct limited reviews of a Mortgagee's origination, underwriting, and servicing of FHA-insured Single Family Mortgages, or more comprehensive reviews that include not just the Mortgagee's files, records, and practices, but also the Mortgagee's overall

operations and policies with respect to Mortgagee relationships, quality control and risk management, escrow administration, wholesale Mortgages, and certain FHA product lines.

iv. Findings

At the conclusion of a monitoring review, FHA will discuss Findings with the Mortgagee. FHA will provide the Mortgagee with notification of identified Findings, if any, and specify the remedies and response that are required.

c. Servicer Tier Ranking System II

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Servicers must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

3. Loan Level Monitoring

a. Title I Loan Reviews

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Title I Lenders must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

b. Title II Loan Reviews

i. Notice

FHA will notify Mortgagees with Lender Insurance (LI) authority daily via email of its intent to review the Mortgagee's LI case binders. Mortgagees that do not have LI authority can view loans selected for review in FHAC.

ii. Production of Case Binders

The Mortgagee must provide the requested case binder(s) within 10 business days of FHA's transmittal of a request.

Failure of a Mortgagee with LI authority to submit requested case binders may result in suspension of the Mortgagee's LI authority.

iii. Scope

Title II loan reviews consist of, but are not limited to, the Mortgagee's compliance with FHA guidelines and an assessment of whether the Mortgage represents an unacceptable level of risk to FHA.

iv. Findings

Mortgagees can view the results of each review in FHAC. FHA will issue a notice for each Mortgage with Material Findings.

D. MONITORING OF OTHER PARTICIPANTS

1. Appraisers

FHA may perform periodic reviews of the work performed by FHA-approved Appraisers to ensure compliance with FHA requirements. FHA-approved Appraisers must provide any additional information requested by FHA to assist in properly evaluating the work performed.

2. Other Participants

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

E. ENFORCEMENT

The following provides general information about the processes and procedures normally employed by FHA in its enforcement activities. The following is provided for informational purposes only and does not represent a waiver of any authority of FHA, HUD, or the federal government to carry out enforcement activities to the full extent of its authorities in connection with FHA's Single Family programs.

1. Referrals for Non-Compliance

FHA may refer any Finding for administrative or other enforcement action in its discretion. Referrals may be made to any appropriate body, including:

- HUD's Mortgagee Review Board (MRB);
- HUD's Office of Fair Housing and Equal Opportunity (FHEO) (fair lending issues);
- HUD's Departmental Enforcement Center (DEC) (suspension or debarment actions);
- HUD's OIG (suspected fraud or illegal activities);
- the Consumer Financial Protection Bureau (CFPB);
- the Department of Justice; and/or
- state licensing agencies (e.g., Secretary of State, Real Estate Commissioner, Appraisal Review Board, Department of Banking, Bar Association, etc.).

2. Employee Improprieties Attributed to the Mortgagee

Criminal, fraudulent, or other seriously improper conduct by an officer, director, shareholder, partner, employee, or other individual associated with a Mortgagee may be attributed to the Mortgagee with which the individual is connected when the improper conduct occurred in connection to the individual's performance of duties for or on behalf of the Mortgagee, or with the Mortgagee's knowledge, approval, or acquiescence. Such impropriety may result in appropriate administrative sanctions against the Mortgagee.

3. Program Office Actions and Sanctions

FHA's Office of Single Family Housing is authorized to take the following enforcement actions against Mortgagees that do not comply with FHA requirements.

a. Actions and Sanctions Against Mortgagees

i. Probation of Direct Endorsement Authority

FHA may place a Mortgagee on DE probation for a specified period of time for the purpose of evaluating the Mortgagee's compliance with the requirements of the DE Program. The scope of the probation depends upon the seriousness of the problems and deficiencies exhibited by the Mortgagee. For additional information on this authority, see 24 CFR § 203.3(d)(1). This action is separate and apart from probation imposed by the MRB.

(A) Scope

(1) Training

The Mortgagee's underwriter, or other technical staff, may be required to attend training sessions, as appropriate.

(2) Title II Loan Reviews

FHA may increase the percentage of the Mortgagee's cases subject to Title II loan reviews.

(3) Mortgagee Audit and Monitoring Review

FHA may require the Mortgagee to perform a review or audit of its underwriting processes, or to hire an independent third party to assess the Mortgagee's operational controls and systems, and report the results to FHA. FHA may also conduct an on-site monitoring review of the Mortgagee.

(4) Quality Control Plan

FHA may require the Mortgagee to make changes to its QC Plan.

(5) Pre-Closing Review Status

FHA may place a Mortgagee back in pre-closing review status and subject the Mortgagee's cases to technical underwriting reviews and firm commitment processing prior to endorsement (see Supplemental Mortgagee Authorities).

(a) Time Frame

Pre-closing review status continues until the Mortgagee corrects its underwriting deficiencies or until the Mortgagee's DE approval is withdrawn.

(b) Cause

A return to pre-closing status may result from, but is not limited to, the following circumstances:

- final Title II loan review results that demonstrate a Mortgagee's failure to follow FHA requirements;
- a pattern of fraud identified by FHA, of which the Mortgagee was aware, or should have been aware; or
- the results of on-site or other reviews of the Mortgagee.

(6) Additional Elements

FHA may impose additional elements of probation reasonably related to the Mortgagee's underlying violations that allow FHA to monitor the Mortgagee and assist FHA with bringing the Mortgagee into compliance with FHA regulations.

(B) Notice

FHA will send a written notice of probation to the Mortgagee. The probation notice will list the violations that precipitated the probation and explain the elements being applied to the Mortgagee's probation.

(C) Effective Date

Probation is effective immediately upon the receipt of the notice of probation by the Mortgagee.

ii. Withdrawal of Direct Endorsement Authority

FHA may withdraw the DE authority of any Mortgagee that demonstrates a pattern or practice of failing to comply with FHA underwriting guidelines or program requirements. This action is separate and apart from the termination action described in the Credit Watch Termination section.

(A) Scope

FHA may terminate a Mortgagee's approval to participate in the DE Program in a particular jurisdiction or on a nationwide basis.

(A) Notice and Appeal

FHA will provide the Mortgagee with written notice of the proposed withdrawal that identifies the grounds for the action and advises the Mortgagee of its right to an informal conference.

(1) Informal Conference

FHA will expeditiously arrange for a conference where the Mortgagee may present information and argument in opposition to the proposed withdrawal. The Mortgagee may be represented by counsel.

(2) Determination

After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed.

(3) Appeal and Final Agency Action

The Mortgagee may appeal the decision to the Deputy Assistant Secretary (DAS) for Single Family Housing or his or her designee. A decision by the DAS for Single Family Housing or his or her designee constitutes final agency action.

iii. Credit Watch Termination

HUD may terminate a Mortgagee's authority to originate or underwrite FHA-insured Single Family Mortgages in any geographic area where the Mortgagee has an excessive rate of early defaults and claims in accordance with the Credit Watch Termination regulations at 24 CFR § 202.3(c)(2). Credit Watch Termination is separate and apart from any action that may be taken by the MRB.

(A) Frequency and Scope

FHA reviews the default and claim rate of FHA-insured Single Family Mortgages on a quarterly basis. FHA compares the rate of each participating Mortgagee with the rates of other Mortgagees in the same geographic area. The review is limited to Mortgages with an amortization date within the preceding 24 months.

(A) Cause

FHA may terminate the origination or underwriting authority of any Mortgagee whose default and claim rate exceeds both the national default and claim rate and 200

percent of the default and claim rate within the geographic area served by a HUD field office.

(B) Notice and Appeal

FHA will issue a Proposed Credit Watch Termination Notice to the Mortgagee prior to terminating the Mortgagee's approval. The Mortgagee may appeal the proposed termination by submitting a written request for an informal conference with the DAS for Single Family Housing or his or her designee within 30 Days of receipt of the Notice.

(1) Informal Conference

The Mortgagee or its representative may make an oral and/or written presentation to oppose the proposed termination. FHA will only consider presentations that specifically address relevant mitigating factors and present facts and circumstances to explain the Mortgagee's poor performance.

(2) Mitigating Factors

FHA will consider relevant mitigating factors in deciding whether to terminate a Mortgagee's origination and/or underwriting authority.

(3) Determination

After the informal conference, FHA will make a determination whether to sustain or withdraw the termination. FHA will notify the Mortgagee of its decision in writing via a Final Notice of Determination. If sustained, the termination will not take effect until the Mortgagee receives the Final Notice.

(4) Waiver of Appeal

If a Mortgagee does not request an informal conference within 30 Days of receiving the Proposed Credit Watch Termination Notice, the Mortgagee has waived its appeal and its authority will be terminated 60 Days from the date of the Proposed Credit Watch Termination Notice without further notice from HUD.

(C) Effect of Termination

A Mortgagee whose authority has been terminated under Credit Watch is prohibited from originating or underwriting FHA-insured Single Family Mortgages within the area of the HUD field office(s) listed in the Notice. The Mortgagee's general FHA approval and supplemental authorities (see Supplemental Mortgagee Authorities) remain unaffected.

(1) Case Status

(a) Definition

An Approved Mortgage is a Mortgage underwritten and approved by a DE underwriter, or covered by a firm commitment issued by HUD.

(b) Standard

Mortgages that closed or were approved before the termination became effective may be endorsed. Cases at earlier stages of processing cannot be submitted for insurance by the terminated Mortgagee. However, the cases may be transferred for completion of processing and underwriting to another Mortgagee authorized to underwrite FHA-insured Mortgages in that area.

(2) Public Notice

HUD will publish a list of Mortgagees who have had their authority terminated in the Federal Register and on HUD's website with a general explanation of the cause and effect of the termination.

(D) Reinstatement

(1) Waiting Period

A terminated Mortgagee may request to have its authority reinstated no earlier than six months after the effective date of the termination.

(2) Independent Review

The Mortgagee must obtain an independent review of the terminated area's operation and mortgage origination or underwriting, specifically including the FHA-insured Mortgages cited in the termination notice. The analysis must identify the underlying cause for the Mortgagee's high default and claim rate. The review must be conducted and issued by an independent Certified Public Accountant (CPA) qualified to perform audits under Government Auditing Standards as set forth by the General Accounting Office.

(3) Corrective Action Plan

The Mortgagee must submit a corrective action plan to address each of the issues identified in the CPA's report, along with evidence that the plan has been implemented. FHA reserves the right to impose additional requirements for reinstatement.

(4) Application for Reinstatement

The application for reinstatement must be submitted through the Lender Electronic Assessment Portal (LEAP). The application must be accompanied by the CPA's report and the corrective action plan.

iv. Suspension or Termination of Lender Insurance Authority

(A) Definition

The Lender Insurance (LI) Compare Ratio is the percentage of Mortgages underwritten by the Mortgagee that are in claim or default status compared with the percentage of Mortgages in claim or default status for all Mortgagees operating in the same state(s) over the preceding two-year period.

(A) Scope

FHA monitors Mortgagees participating in the LI program whose LI Compare Ratios exceed 150 percent.

(B) Cause

FHA may immediately terminate or temporarily suspend a Mortgagee's LI authority for any cause set forth in 24 CFR § 203.4(d).

(C) Notice and Appeal

FHA will provide written notice to any Mortgagee whose LI authority has been suspended or terminated. Mortgagees may appeal the suspension or termination by requesting an informal conference with the DAS for Single Family Housing or his or her designee.

(1) Informal Conference

The suspension or termination letter will provide the address to where the request for an informal conference may be sent, and the time frame for the informal conference. The informal conference must be requested in writing within 30 Days of the notice of suspension or termination.

(2) Determination

The DAS or the designee will issue a decision in writing after the informal conference to either affirm the suspension or termination, or reinstate the Mortgagee's LI authority. This decision represents a final agency action pursuant to section 256(d) of the National Housing Act (12 U.S.C. § 1715z-21(d)) and is not subject to further appeal or judicial review.

(3) Waiver of Appeal

If a Mortgagee does not request an informal conference within 30 Days of receiving the suspension or termination letter, the Mortgagee has waived its right to appeal.

(D) Effective Date

The suspension or termination of the Mortgagee's LI authority is effective immediately upon the receipt of the notice by the Mortgagee.

(E) Effect of Suspension or Termination

A Mortgagee's DE authority is not affected by the suspension or termination of its LI authority. Mortgagees who have had their LI authority suspended or terminated may continue to underwrite and close FHA Mortgages without prior review by HUD.

(F) Reinstatement

(1) Waiting Period

A Mortgagee whose LI authority has been terminated is prohibited from applying for reinstatement of its LI authority for six months from the date of termination.

(2) Claim and Default Rate

At the time of the application for reinstatement, the Mortgagee must have unconditional DE authority and a two-year claim and default rate that does not exceed 150 percent of the aggregate claim and default rate for the states in which it underwrote Mortgages.

(3) Application for Reinstatement

Applications for reinstatement of LI authority must be submitted to FHA through LEAP. The application must include:

- a copy of the *Acknowledgment of Terms and Conditions for LI* page from FHAC signed by an authorized official registered with HUD;
- a corrective action plan identifying the changes in internal policies and procedures that address the issues that resulted in the termination of LI authority; and
- documentation evidencing that the Mortgagee has implemented the corrective action plan.

b. Loan Level Actions and Sanctions

FHA has the authority to pursue loan level actions and sanctions reasonably related to a Mortgagee's underlying violations.

4. Mortgagee Review Board Actions and Sanctions

The MRB is authorized to impose civil money penalties and take administrative action against any FHA-approved Mortgagee that does not comply with HUD and FHA statutory, regulatory, and any Handbook requirements, the Real Estate Settlement Procedures Act (RESPA), or the non-discrimination requirements of the ECOA, the Fair Housing Act, or Executive Order 11063 on Equal Opportunity in Housing.

a. Actions and Sanctions

The following actions and sanctions may be imposed by the MRB:

- a letter of reprimand;
- probation;
- suspension;
- withdrawal of FHA approval; and
- civil money penalties.

The MRB may also enter into settlement agreements with non-complying Mortgagees.

The following are general descriptions of the types of actions and sanctions that may be taken by the MRB and are for informational purposes only. The specific requirements for and procedures applicable to these actions are set forth in sections 202(c) and 536 of the National Housing Act (12 U.S.C. §§ 1708(c) and 1735f-14), and Parts 25 and 30 of Title 24 of the Code of Federal Regulations (24 CFR Parts 25 and 30).

i. Letter of Reprimand

The MRB may issue a letter of reprimand to inform a Mortgagee of its violation of FHA requirements. A letter of reprimand is effective upon receipt of the letter by the Mortgagee.

(G)Case Status

A letter of reprimand has no impact on the Mortgagee's authority to originate, underwrite, or service FHA-insured Mortgages.

(H)Duration

There is no time duration associated with a letter of reprimand.

(I) Appeal

The Mortgagee has no right to appeal a letter of reprimand within HUD.

v. Probation

The MRB may place a Mortgagee on probation for violation of FHA requirements. The MRB will specify the scope, terms, and conditions of the probation, which are designed to allow FHA to monitor the Mortgagee and assist FHA with bringing the Mortgagee into compliance with FHA regulations.

(A) Case Status

Unless specified in the terms of the probation, a Mortgagee on probation retains its origination, underwriting, and servicing authorities, as applicable.

(B) Duration

The MRB may place a Mortgagee on probation for a period of up to six months.

(C) Appeal

The Mortgagee has the right to appeal a probation action in accordance with the provisions of 24 CFR Parts 25 and 26.

vi. Suspension

Suspension is a temporary measure that is applied to a Mortgagee when there is adequate evidence that the interests of HUD or the public would not be served by continuing to allow the Mortgagee to participate in FHA programs, pending the completion of any investigation, other review, or legal or administrative proceedings the Mortgagee is involved in.

(A) Effective Date

If the MRB determines there is adequate evidence that immediate action is required to protect the financial interests of HUD or the public, the MRB is authorized to suspend a Mortgagee's FHA approval immediately upon issuance of the notice of suspension and without prior issuance of a Notice of Violation (NOV) as set forth in 24 CFR § 25.7(d).

Any other suspension is effective upon the Mortgagee's receipt of the notice of suspension as set forth in 24 CFR § 25.5(d).

(B) Case Status

During the period of suspension, HUD will not endorse any Mortgage originated by the suspended Mortgagee unless it was an Approved Mortgage prior to the date of suspension.

The Mortgagee must transfer all other applications in process to another FHA-approved Mortgagee for completion of processing, submission, and endorsement.

(C) Duration

Suspension is generally imposed for a period of six months to one year, but may be extended for an additional six months in accordance with the provisions of 24 CFR Part 25.

(D) Appeal

The Mortgagee has the right to appeal a suspension in accordance with the provisions of 24 CFR Parts 25 and 26.

vii. Withdrawal of FHA Approval

Only the MRB may withdraw a Mortgagee's FHA approval. Withdrawal of FHA approval applies to all offices of the Mortgagee.

(A) Effective Date

If the MRB determines there is adequate evidence that immediate action is required to protect the financial interests of HUD or the public, the MRB is authorized to withdraw a Mortgagee's FHA approval immediately; in this case, the withdrawal is effective upon the Mortgagee's receipt of the notice of withdrawal.

Any other withdrawal is effective upon either:

- the expiration of the 30-Day appeal period, if the Mortgagee does not request a hearing; or
- the receipt of the Administrative Law Judge's final decision, if the Mortgagee does request a hearing within the 30-Day appeal period.

(B) Case Status

HUD will not endorse any Mortgage originated by the withdrawn Mortgagee unless it was an Approved Mortgage prior to the date of withdrawal.

The withdrawn Mortgagee must transfer its servicing portfolio to another FHA-approved Mortgagee (see Transfers of Servicing and Sales of Mortgages).

Withdrawn FHA approval means that the Mortgagee may not originate, underwrite, service, or purchase any FHA-insured Mortgages.

(C) Duration

The MRB's withdrawal of a Mortgagee's FHA approval will be for a reasonable, specified period of time, but not less than one year. The MRB may permanently withdraw a Mortgagee's FHA approval if it finds the Mortgagee's violations to be egregious or willful.

A withdrawn Mortgagee's approval is not reinstated at the end of the period of withdrawal. The Mortgagee may reapply for FHA approval after the period of withdrawal has expired.

(D) Appeal

The Mortgagee has the right to appeal a withdrawal of its FHA approval by the MRB in accordance with the provisions of 24 CFR Parts 25 and 26.

viii. Civil Money Penalties

The MRB may impose civil money penalties against any FHA-approved Mortgagee who knowingly and materially violates FHA requirements as set forth in 24 CFR § 30.35.

(A) Complaint

If the MRB elects to seek civil money penalties against a Mortgagee, HUD will file a complaint to initiate legal action. A civil money penalty may be imposed against a Mortgagee in addition to any other administrative action taken by the MRB.

(B) Maximum Civil Money Penalties

The MRB is authorized to impose a civil money penalty, in accordance with the provisions of 24 CFR Part 30, against a party that knowingly and materially violates FHA program regulations or requirements. A civil money penalty may be imposed with respect to each insured Mortgage or other separate occurrence of a violation up to the maximum permitted under Part 30.

(C) Mitigating and Aggravating Factors

In determining the amount of a civil money penalty, the MRB will consider the following factors:

- the gravity of the offense;
- the Mortgagee's history of prior offenses;
- the Mortgagee's ability to pay the penalty;
- the injury to the public;
- the benefits received by the violator;
- the extent of potential benefit to other persons;
- deterrence of future violations; and
- the degree of the violator's culpability.

ix. Settlement Agreements

The MRB is authorized to enter into settlement agreements with non-complying Mortgagees at any time in order to resolve grounds for an administrative sanction or civil money penalty, as set forth in 12 U.S.C. § 1708(c)(3)(E) and 24 CFR § 25.5(a). Failure

by the Mortgagee to comply with the terms of a settlement agreement may result in a suspension or withdrawal of the Mortgagee's FHA approval.

b. Procedures

The following is a brief summary of the procedures of the MRB under 24 CFR Parts 25, 26, and 30.

i. Notice of Violation

The MRB will send the Mortgagee an NOV detailing the Mortgagee's alleged violations.

(A) Mortgagee Response

The Mortgagee may provide the MRB with a written response within 30 Days of receiving the NOV. The MRB will consider the Mortgagee's response, as well as other relevant material, when deciding which administrative action to take, if any, and whether to seek civil money penalties against the Mortgagee.

If the Mortgagee fails to respond to the NOV within 30 Days, the MRB will make a final determination based upon the information available to it.

(B) Preservation of Documents

Upon receipt of the NOV, the Mortgagee is required to preserve and maintain all documents and data, including electronically stored data, within the Mortgagee's possession or control that may relate to the violations alleged in the NOV.

ii. Notice of Administrative Action

If the MRB decides to take administrative action against the Mortgagee, the MRB will issue a Notice of Administrative Action to the Mortgagee describing the nature and duration of the action and setting forth the basis for the action being taken.

iii. Appeal

(A) Request for Hearing

Mortgagees may appeal a probation, suspension or withdrawal action by the MRB by submitting a written request for a hearing within 30 Days of receipt of the Notice of Administrative Action. The Mortgagee's request for a hearing must specifically respond to the violations set forth in the Notice of Administrative Action.

(C) Hearing Process and Procedures

Hearings are conducted before an impartial Administrative Law Judge in accordance with the procedures set forth in 24 CFR Part 26, Subpart B.

(D) Waiver of Appeal

If a Mortgagee fails to request a hearing within the 30-Day period, the MRB action becomes final.

iv. Public Notice

(A) Federal Register

Pursuant to the National Housing Act (12 U.S.C. § 1708(c)(5)), HUD publishes a description of and the cause for each administrative action against an FHA-approved Mortgagee in the Federal Register. The Federal Register notices include details on all MRB actions, including letters of reprimand, probations, suspensions, withdrawals of FHA approval, settlement agreements, and civil money penalties.

(E) Agency Notifications

If the MRB suspends or withdraws the approval of a Mortgagee, FHA is required to notify certain state, federal, and other interested agencies that interact with the Mortgagee, including:

- Conference of State Bank Supervisors/NMLS
- CFPB
- Fannie Mae
- Federal Deposit Insurance Corporation (FDIC)
- Federal Reserve
- Freddie Mac
- Ginnie Mae
- National Credit Union Administration (NCUA)
- Office of the Comptroller of the Currency
- U.S. Department of Agriculture Rural Development Housing Authority
- U.S. Department of Veterans Affairs

5. Actions and Sanctions Against Individuals and Other Program Participants

HUD may also impose civil money penalties and take administrative action against individuals and other program participants for violations of FHA mortgage insurance program requirements.

a. Limited Denial of Participation

x. Definition

A Limited Denial of Participation (LDP) is an action that excludes a party from further participation in a specified HUD program area based on the participant's failure to comply with HUD program standards. LDPs are issued under the authority of 2 CFR § 2424.1100.

xi. Cause

An LDP may be issued against an individual or other program participant based upon adequate evidence of any of the causes listed in 2 CFR § 2424.1110.

xii. Effective Date

An LDP is effective immediately upon issuance of the notice by the authorizing official.

xiii. Duration

The LDP sanction may be imposed for a period not to exceed 12 months.

xiv. Processing and Appeals

An individual or other program participant may appeal the LDP by requesting an informal conference with the authorizing official or a hearing before the Departmental Hearing Officer within 30 Days of receipt of the notice of LDP.

LDP processing and appeal procedures are set forth in 2 CFR §§ 2424.1100 through 2424.1165.

xv. Public Notice

A list of individuals and other program participants who have received LDPs is available publicly on the HUD website, as well as through FHAC.

b. Suspension

Violations of statutes or serious or repeated violations of FHA requirements may lead to the suspension of an individual or other FHA program participant.

i. Definition

Suspension is a government-wide action that temporarily renders an individual ineligible to participate in most federal government programs pending the completion of an investigation or legal proceedings.

ii. Cause

FHA may suspend an individual for the reasons listed in 2 CFR § 180.700, including:

- the existence of an indictment for, or other adequate evidence to suspect, an offense listed under 2 CFR § 180.800(a); or
- the existence of adequate evidence to suspect any other cause for debarment listed under 2 CFR § 180.800(b) through (d); and
- a determination made by the suspending official that immediate action is necessary to protect the public interest.

iii. Effective Date

A suspension is effective when the suspending official signs the decision to suspend.

iv. Duration

If legal or debarment proceedings are initiated at the time of, or during a suspension, the suspension may continue until the conclusion of those proceedings. If proceedings are not initiated, a suspension may not exceed 12 months. The suspending official may extend the 12-month limit for an additional six months under limited circumstances described in 2 CFR § 180.760. In no event may a suspension exceed 18 months without initiating legal or debarment proceedings.

v. Processing and Appeals

An individual may appeal a proposed suspension by providing the suspending official with information in opposition to the suspension within 30 Days of receipt of the notice of suspension. Information may be provided orally or in writing; important information provided orally must also be submitted in writing for the official record.

Suspension processing and appeal procedures are set forth in 2 CFR §§ 180.700 through 180.760.

c. Debarment

Violations of statutes or serious or repeated violations of FHA requirements may lead to the debarment of an individual or other FHA program participant.

i. Definition

Debarment is a final determination by an authorizing official that the individual has engaged in prohibited conduct and is not presently responsible. Debarment excludes an individual from participating in most federal government programs for a specified period of time.

ii. Cause

FHA may debar an individual for the reasons listed in 2 CFR § 180.800, including, but not limited to:

- criminal conviction or civil judgment for commission of fraud in connection with obtaining, attempting to obtain, or performing a public or private agreement or transaction;
- criminal conviction or civil judgment for commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, receiving stolen property, making false claims, or obstruction of justice;

- criminal conviction or civil judgment for violation of federal or state antitrust statutes;
- criminal conviction or civil judgment for the commission of any other offense indicating a lack of business integrity or business honesty that seriously and directly affects the individual's present responsibilities;
- violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program;
- knowingly doing business with an ineligible person;
- failure to pay a single substantial debt, or a number of outstanding debts, owed to any federal agency or instrumentality, provided the debt is uncontested, or, if contested, provided all legal and administrative remedies have been exhausted; or
- any other serious or compelling cause that affects the present responsibility of the individual.

iii. Effective Date

A debarment is not effective until the individual has received a notice of proposed debarment and has had an opportunity to contest the proposed debarment. After the debarring official issues a decision, the debarment is effective immediately.

iv. Duration

The period of debarment is based on the seriousness of the cause(s) upon which the debarment is based. Generally, the period of debarment should not exceed three years. However, if circumstances warrant, the debarring official may impose a longer period of debarment.

v. Processing and Appeals

An individual may appeal a proposed debarment by providing the debarring official with information in opposition to the debarment within 30 Days of receipt of the notice of debarment. Information may be provided orally or in writing; important information provided orally must also be submitted in writing for the official record.

Debarment processing and appeal procedures are set forth in 2 CFR §§ 180.800 through 180.885.

d. Civil Money Penalties

The Assistant Secretary for Housing - Federal Housing Commissioner or his or her designee is authorized to pursue civil money penalties against any principal, officer, or employee of a Mortgagee, or other participants in a Mortgage insured by FHA, including, but not limited to:

- sellers
- Borrowers
- closing agents
- title companies

- real estate agents
- mortgage brokers
- appraisers
- sponsored TPOs
- dealers
- consultants
- contractors
- subcontractors
- inspectors

The Assistant Secretary for Housing - Federal Housing Commissioner or his or her designee is authorized to pursue civil money penalties against program participants who knowingly and materially violate FHA requirements as set forth in 24 CFR § 30.36.

e. Specific Program Participants

i. Appraisers

(A) Notice of Deficiency

(1) Standard

A Notice of Deficiency (NOD) refers to a formal notification from FHA to an Appraiser when a review identifies an error or lack of compliance. An NOD is not a sanction and is not considered severe enough to require remedial education or removal.

An NOD is noted on the Appraiser's record and multiple NODs may result in further action by FHA.

(2) Cause

An Appraiser may receive an NOD if an FHA review has determined gaps in due diligence and professionalism or errors or noncompliance.

(3) Notice

FHA will provide the Appraiser with written notice outlining deficiencies found in a specific appraisal.

(4) Appeal

An NOD is not a sanction and no appeal is available.

(B) Remedial Education

(1) Standard

FHA may require an Appraiser to take remedial education on appraisal-related topics for failure to comply with the requirements outlined in this *SF Handbook*.

The Appraiser must complete remedial education within 60 Days of the date of notification and provide proof of successful completion. Failure to comply with a remedial education action may result in escalation of the action to an administrative sanction, including removal from the FHA Appraiser Roster.

(2) Cause

Cause for remedial education includes, but is not limited to, identification of more serious deficiencies in the appraisal report that indicate lack of competence, including incomplete data collection or support for analysis and conclusions.

(3) Notice

FHA will provide the Appraiser with written notice of the required remedial education that identifies the ground for the requirement.

(4) Appeal

Remedial education is not a sanction and no appeal is available.

(C) Removal

(1) Standard

FHA may remove an Appraiser from the FHA Appraiser Roster for failure to comply with the requirements outlined in this *SF Handbook*. The Appraiser may be required to take remedial education in addition to the removal.

FHA will notify the state licensing or certification agency in writing when an Appraiser has received a final notice of removal from the FHA Appraiser Roster. HUD is required by law to refer Appraisers to these boards if HUD considers the actions to be of such magnitude or frequency as to warrant such referral.

(2) Causes

Causes for removal include, but are not limited to, any of the following:

- significant deficiencies in appraisals, including non-compliance with Civil Rights requirements regarding appraisals;
- losing standing as a state-certified Appraiser due to disciplinary action in any state in which the Appraiser is certified;

- prosecution for committing, attempting to commit, or conspiring to commit fraud, misrepresentation, or any other offense that may reflect on the Appraiser's character or integrity;
- failure to perform appraisal functions in accordance with instructions and standards issued by HUD;
- failure to comply with any agreement made between the Appraiser and HUD or with any certification made by the Appraiser;
- issuance of a final debarment, suspension, or limited denial of participation;
- failure to maintain eligibility requirements for placement on the Appraiser Roster as set forth under this subpart or any other instructions or standards issued by HUD; or
- failure to comply with HUD-imposed education requirements.

(3) Notice

An Appraiser that is debarred, suspended, subject to a limited denial of participation or has lost standing as a state-certified Appraiser due to disciplinary action or expiration of a state certification, will be automatically removed from the FHA Appraiser Roster and notified of the removal.

In all other cases, the Appraiser will be given written notice of the proposed removal, and the notice will include the reasons for the proposed removal and the duration of the proposed removal.

(4) Appeal

The Appraiser will have 20 Days from the date of the notice of removal to submit a written response appealing the proposed removal and to request a conference. A request for a conference must be in writing and must be submitted along with a written response.

Within 30 Days of FHA's receipt of the Appraiser's written response, or if the Appraiser has requested a conference, within 30 Days after the completion of the conference, an FHA official, designated by the Secretary, will review the appeal and will send a final decision either affirming, modifying, or canceling the removal from the Appraiser Roster. FHA may extend this time upon giving notice. The FHA official designated by the Secretary to review the appeal will not be someone involved in FHA's initial removal decision nor will it be someone who reports to a person involved in that initial decision.

If the Appraiser does not submit a written response, the removal will be effective 20 Days after the date of FHA's initial removal notice. If the Appraiser submits a written response, and the removal decision is affirmed or modified, the removal or modification will be effective on the date of FHA's notice affirming or modifying the initial removal decision.

(5) Duration

Removal from the FHA Appraiser Roster may be for a period of up to 12 months.

If removal is the result of expiration or a disciplinary action by the licensing state, removal from the FHA Appraiser Roster will remain in effect until the appraisal credentials are reinstated by the issuing state.

ii. Other Participants

RESERVED FOR FUTURE USE

This section is reserved for future use, and until such time, FHA-approved Mortgagees and Other Program Participants must continue to comply with all applicable law and existing Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their participation in FHA programs.

APPENDIX 1.0 – MORTGAGE INSURANCE PREMIUMS

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 175 basis points (bps) (1.75%) of the Base Loan Amount.
Exceptions: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247) • Indian Lands (Section 248)
Indian Lands (Section 248) do not require a UFMIP.

Annual Mortgage Insurance Premium (MIP)			
Applies to all Mortgages except: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247)			
Hawaiian Home Lands (Section 247) do not require Annual MIP.			
Mortgage Term of More Than 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than $625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term
Mortgage Term of Less than or Equal to 15 Years			
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	≤ 78.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

Streamline Refinance, Simple Refinance:

For refinance of previous Mortgage endorsed on or before May 31, 2009 UFMIP: 1 (bps) (.01%) All Mortgages			
All Mortgage Terms			
Base Loan Amount	**LTV**	**Annual MIP (bps)**	**Duration**
All	≤ 90.00%	55	11 years
	> 90.00%	55	Mortgage term

For refinance of previous Mortgage endorsed on or before May 31, 2009 UFMIP: 1 (bps) (.01%) All Mortgages
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

Hawaiian Home Lands Upfront MIP (UFMIP)				
	Loan Term in Years			
	≤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	An amount shown under this heading may indicate that the individual: • is a salaried employee of a corporation; or • has other sources of income. This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the Borrower's gross income.
Employee Business Expenses (from Schedule A)	Unreimbursed employee business expenses, as shown on IRS Form 2106, are actual cash expenses that must be deducted from the gross income. Depreciation due to business use of a vehicle may be added to the gross income.
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation, depletion, amortization, and casualty losses may be added back to the gross income.
Business Use of Home	Mortgage interest, Mortgage Insurance Premiums (MIP), real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.
Rents, Royalties, Partnerships (from Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining Effective Income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an 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.

IRS Form 1040 Heading	Description
Interest and Dividend Income (from Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it: • has been received for the past two years; and • is expected to continue. If the interest-bearing asset will be liquidated as a source of the cash investment, the Mortgagee must appropriately adjust the amount.
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	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions; or • penalties on early withdrawal of savings health insurance deductions, and Alimony payments.

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.