FHA PROGRAM - Broker Only

POLICY	GUIDELINE
PRODUCT TYPE & TERMS	30, 20, 15 Year Fixed **Temporary Buydowns are not permitted.**
STREAMLINE REFINANCES	Information specific to FHA Streamline Refinances is detailed in the FHA Streamline Refinance product matrix.
THIRD PARTY FEES	Third party processing fees as a separate fee paid by the borrower, property seller, or other third party is not allowed.
OCCUPANCY	Primary Residence ONLY
MINIMUM FICO	• **620** minimum credit score • A Tri-merge Credit Report is required on all FHA loans • Regardless of DU recommendation, if the credit report reflects that the borrower has less than 3 open trades or the credit report is comprised of multiple "authorized user" accounts, MLS will require the following: o Manual downgrade of loan; o Additional non-traditional trade lines that have been open and seasoned for a minimum of 12 months; and o Debt ratio will be capped at 45% regardless of DU recommendation. See Credit Section for additional credit requirements. **Minimum Decision Credit Score**: • When determining which credit score is applicable to the transaction, the following must be considered: o Three Scores: The middle/median score is used o Two Scores: The lowest is used o One Score: That score is used • When there are multiple borrowers on the transaction, the Minimum Decision Credit Score (as described above) is determined for each borrower, then select the lowest score for all borrowers. • When there are multiple borrowers, and one or more do not have a credit score, the lowest Minimum Decision Credit Score (as described above) of the borrowers with credit is used.
LOAN PURPOSE	• Purchase • No Cash-out Refinance: o Rate Term Refinance o Simple Refinance o Streamline Refinance (refer to FHA Streamline Refinance Addendum) • Cash Out Refinance
MAXIMUM LTV / CLTV	**Transaction based LTV restrictions:** • **PURCHASE:** maximum 96.5% LTV / 100% CLTV o CLTV can exceed 100% with government down payment and / or closing cost assistance. • **RATE TERM REFINANCE:** maximum 97.75% LTV / 97.75% CLTV (excluding UFMIP) • **SIMPLE REFINANCE:** maximum 97.75% LTV / 97.75%[2)]CLTV(excluding UFMIP) • **Cash Out Refinance:** maximum 80% LTV / 80% CLTV **Other LTV restrictions:** • **Non-Occupying Borrower transactions** – maximum 75%; however the LTV can be increased to a maximum of 96.5% if the borrowers are family members, provided the transaction does not involve:

MAXIMUM LTV/CLTV (continued)	o A family member selling to a family member who will be a non-occupying co-borrower; or o A transaction involving a 2-4 unit property. • **Identity-of-Interest transactions** – maximum 85% LTV An identity-of-interest transaction is a sale between parties with an existing business or family relationship. <u>The 85% maximum LTV restriction does not apply for the following identity-of-interest transactions under the following circumstances</u>: Family Member Transactions – the borrower purchases as their principal residence: o the principal residence of another family member; or o A property owned by another family member in which the borrower has been a tenant for at least 6 months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required. Builder's Employee Purchase – 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. Corporate Transfer – a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee. Tenant Purchase – the current tenant purchases the property where the tenant has rented the property for at least 6 months immediately predating the sales contract. A lease or other written evidence to verify the occupancy is required.
MAXIMUM LOAN AMOUNT	Maximum loan limits are determined by geographic area. A complete schedule of FHA mortgage limits for all areas is available at: **https://entp.hud.gov/idapp/html/hicostlook.cfm** **High Balance Loans** • FHA loans that exceed $484, 350 located in a high cost area (as specified by the FHFA) are considered High Balance • Standard FHA LTV requirements apply. The maximum CLTV is capped at the maximum LTV. • Non-traditional credit is not allowed.
INELIGIBLE TRANSACTIONS	• FHA 203k Renovation loans (limited and standard 203k) • FHA Construction-to-Permanent Financing • FHA Refinance loans for borrowers in Negative Equity Position (Short Refi) • FHA Military Impact Area Loans • FHA loans to Non-Profit Organization Borrowers • FHA loans to borrower with diplomatic immunity • FHA Section 248 Mortgages on Indian Land • FHA Section 247 Hawaiian Homelands
ELIGIBLE PROPERTY TYPES	• 1-4 Unit, detached and attached (2-4 unit properties not permitted in New Jersey) • Site Condos, do not need condo project approval • PUDs • Condos – FHA Approved Projects by HRAP only • Modular Homes & Log Homes with 2 modular / log comps **INELIGIBLE Property Types** • Manufactured Homes • Co-ops • Properties that utilize an individual water purification system – an individual water purification system is a system that is needed to make the water safe and meet code when the individual water supply is unsafe for human consumption unless the system is operating properly. This is not a system that is installed to improve the taste or softness of the water. • Property is <u>not</u> eligible for FHA insurance if the building and related improvements to the property are located within a 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. A property is not eligible for FHA mortgage insurance if the improvements are, or are proposed to be located, within the Coastal Barrier Resource System (CBRS).

PROPERTY FLIPPING	• MLS requires the sellers to have at least 91 days of ownership and does not allow for FHA's temporary property flipping exception. **<u>Resales Occurring between 91-180 Days after an Acquisition:</u>** A Mortgagee must obtain a second appraisal by another appraiser if: • The resale date of a property is between 90-180 days following the acquisition of the property by the seller's; ***and*** • The re-sale price is 100% over the purchase price paid by the seller to acquire the property. The required second appraisal from a different appraiser must include documentation to support the increased value. If the second appraisal supports a value of the property that is more than 5% 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. The Mortgagee must obtain a 12 month chain of title documenting compliance with time restrictions on resales.
ELIGIBLE BORROWERS	• All borrowers must have a valid US Social Security number. • US Citizen. • Permanent Resident Alien with a valid green card • Non-Permanent Resident Alien with an acceptable visa • Must have established credit in the U.S. • Must be paid in U.S. dollars. • Funds to close / reserves must be in US dollars in a U.S. depository.
NON OCCUPANT BORROWERS	• Refer to Maximum LTV/CLTV section for limitations • No ratio limitations for the occupying borrower(s). • Non occupant borrowers are INELIGIBLE in conjunction with cash out refinance transactions.

DU / LP TOTAL SCORECARD	Required on all loans.
	• Approve or Accept / Eligible findings are generally required
	• Refer / Eligible findings require stricter manual underwriting.
	
	<u>TOTAL Scorecard Manual Downgrade Requirements</u>
	Manual downgrade is required when:
	• CAIVRS claim is present unless erroneous or qualifies for exception listed below:
	    o Assumption - loan was current prior to the assumption
	    o Divorce – home and debt assigned to ex-spouse and mortgage was not in default at the time
	    o Bankruptcy – mortgage was included in a bankruptcy due to extenuating circumstances.
	• Foreclosure, short sale, or deed-in-lieu $\geq$ 3 years (short sale occurred within $\geq$3 years from the case number assignment date); (deed-in-lieu in which title transferred from the borrower within the $\geq$3 years of case number assignment); (foreclosure – if the borrower had a foreclosure in which title transferred form the borrower within 3 years of case number assignment.
	• Bankruptcy discharged within 2 years from the date of case number assignment
	• Late mortgage payments on purchase or rate/term refinance
	    o 3 or more greater than 30 days, or
	    o 1 or more 60 days, plus 1 or more 30 day, or
	    o 1 greater than 90 days
	• Any mortgage tradeline that is not the primary (including 2^{nd} liens) has less than 6 months history
	• Mortgage file has info that can't be evaluated by TOTAL
	• Additional info not considered in AUS recommendation effects insurability of the mortgage.
	
	Loans that have **<u>multiple risk layering</u>** may also be downgraded to a "refer" and may require the DTI to be capped at FHA's maximum of 31/43%. Additional conditions may apply or the risk layering may result in a loan denial.

CREDIT	Borrowers with credit files that do not generate credit scores (at least 2) are not eligible for financing. **Satisfactory Credit** A Broker may approve a borrower if:

CREDIT (Continued)	• Acceptable payment history; and • No major derogatory credit on revolving accounts in the last 12 months. "Acceptable payment history" means: • The borrower made all housing and installment debt payments on time for the previous 12 months; and • There are no more than two 30-day late mortgage or installment in the last 24 months. "Major derogatory credit" means: • Payments made more than 90 days after the due date; or 3 or more payments made more than 60 days after the due date. **Derogatory Event Wait Period** is defined as "from event date to the new loan case number order date. **Non-traditional Mortgage Credit – Authorized User Accounts as Credit Reference** • A documented 12-month history of payments on an account where the borrower is an authorized user is an acceptable credit reference as long as it is documented that the borrower has made the last 12 month payments on their own. • Accounts for which the borrower is an authorized user must be included in the DTI ratio unless it can be documented that the primary account holder has made all required payments on the account for the previous 12 months. If less than 3 payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI. **Collections/Charge offs** Non-medical collections in excess of $1,000 or aggregate of $1,000 must be paid in full or the file must be documented with an acceptable 12 month payment arrangement. Borrower must be qualified with the payment. **Federal Tax Liens** Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement hand has made at least 3 months of timely payments. Payments may not be prepaid. **Disputed Derogatory Credit Accounts** Disputed derogatory credit accounts 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 Broker must include a copy of the police report or other documentation form the creditor to support the status of the accounts. 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 loan 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 loan is downgraded to a refer. **Non-derogatory disputed accounts and Disputed Accounts not indicated on the Credit Report (TOTAL)** – 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 If a borrower is disputing accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Broker is not required to downgrade the loan to a refer. However, the Broker 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 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.

INCOME	Two years of uninterrupted part-time income is required. • Average the income over the prior 2 years, or • Use a 12-month average of hours at the current pay rate if the Broker documents an increase in pay rate. **Self-employed (minimum length of self-employment)** If the borrower has been self-employed between 1-2 years, the Broker may only consider the 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 2 years. The Broker must obtain a year-to-date profit & loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of the 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 2-year average of tax returns, an audited P & L or signed quarterly tax return must be obtained from the IRS. **Self-employment (declining income)** Income from a business with a greater than 20% decline in income over the analysis period is not acceptable. However, if there has been a 20% or greater decline, the income is still deemed stable if: • A reduction was the result of documented extenuating circumstances, • The income has been stable or increasing for at least 12 months; and • The borrower qualifies using the reduced income. **Part-time employment income** Two years of uninterrupted part-time income is required: • Average the income over the prior 2 years, or • Use a 12-month average of hours at the current pay rate if the Broker documents an increase in pay rate. **Overtime and Bonus Income** Overtime or bonus income must have been received for the past 2 years. Exception: periods between 1 and 2 years may be acceptable if consistently earned for at least 1 year and is likely to continue. How to calculate income: • Average over 2 years • If the income from the current year decreases by 20% or more form the prior year, use the current year's income. **Commission Income** Earned for at least 1 year in the same or similar line of work and likely to continue. Calculate by subtracting unreimbursed business expenses from the lesser of: • The average net commission earned over the past 2 years or however long it's been earned) and • The average income earned over the prior 1 year. For commission income less than or equal to 25% of the borrower's total earnings, the Broker must use traditional or alternative employment documentation (VOE). For commission income greater than 25% of the borrower's total earnings, the Broker must obtain signed tax returns, including all applicable schedules, for the last 2 years. In lieu of signed tax returns from the borrower, the Broker may obtain a signed IRS Form 4506-T, and tax transcripts directly from the IRS. **Rental Income on retained primary residence** Rental income may be counted when relocating and new residence is located at least 100 miles from previous residence. If no history of rental income since the last tax filing, borrower must have 25% equity in the property. **Non-taxable Income** Gross up non-taxable income using the greater of 15% or actual tax rate. If borrower did not file a tax return, use rate of 15%. The Broker may not make any additional adjustments or allowances based on the number of the borrower's dependents.

INCOME (continued)	**Frequent Job Changes** If the borrower has changed jobs more than 3 times in the prior 12 months, or has changed lines of work, the Broker must obtain: • Transcripts of training and education demonstrating qualification for the new position, or • Employment documentation evidencing continual increases income and/or benefits. **Gaps in Employment** For borrowers with gaps in employment of 6 months or more (an extended absence), the Broker may consider the borrower's current income if it can verify and document that: • The borrower has been employed in the current job for at least 6 months at the time of case number assignment; and • A 2-year work history prior to the absence form employment using standard or alternative employment verification. **Voluntary Alimony or Child Support Payments** Permitted to be used as income. If using a voluntary payment agreement, the Broker: • Obtains 12 months canceled checks, deposit slips, or tax returns, • If there is evidence of receipt for the most recent 6 months, may use the current payment to calculate income, and • If there are not 6 months of consistent payments, may average the income received over the past 2 years, or less if the income has not been received that long.
MAXIMUM RATIOS	• **31% / 43%,** or as allowed on DU/LP Total Scorecard with an Approve / Accept finding. • **33% / 45%** may be considered as an underwriter exception with strong compensating factors. Loans with debt-to-income ratios exceeding 45% must be documented with one or more of FHA's Compensating Factors regardless of DU Recommendation.
LIABILITIES	**<u>Installment Debt (excluding Student Debt)</u>** 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 Broker must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement, or payment statement shows a deferred payment arrangement for an installment loan, refer to the Deferred Obligations section below. **Installment Debts with 10 or fewer payment (TOTAL Scorecard and Manual Underwrite)** Debt may be excluded from ratios only if: • They have remaining cumulative payments of less than or equal to 5% of the borrower's gross monthly income; and • The borrower may not pay the debts down to achieve this percentage. **<u>Deferred Loans (excluding Student Loans)</u>** Deferred obligations, excluding student loans, refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. . Regardless of when they will commence, these deferred obligations must be included in the qualifying ratios. The Broker must obtain evidence of: • Deferral; • The outstanding balance; • The terms of the liability; and • The anticipated monthly payment. For installment debt, the Broker must use: • The actual payment, or • If the actual payment is unknown, either 1) the terms of the debt, or 2) 5% of the outstanding balance.

LIABILITIES	

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Student Loans

The Broker must include all Student Loans in the borrower's liabilities regardless of the payment type or status of payments.

Required Documentation: If the payment used for the monthly obligation is:

- Less than 1% of the outstanding balance reported on the borrower's credit report, and
- Less than the monthly payment reported on the borrower's credit report;

The Broker must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.

Calculation of Monthly Obligation: Regardless of payment status, the Broker must use either:

- The greater of:
  - 1% of the outstanding balance on the loan; or
  - The monthly payment reported on the borrower's credit report; or
- The actual documented payment, provided the payment will fully amortize the loan over its term.

Revolving Accounts – Monthly Payment Calculation

The Broker 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 Broker must obtain a copy of the most recent charge account statement or use 5% of the outstanding balance to document monthly payment.

Alimony or Child Support

- May be treated either as a reduction from gross income or as a monthly obligation.
- Obtain pay stubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment.'
- Calculate the monthly obligation from the greater of:
  - The amount shown on the most recent decree or agreement establishing the obligation, or
  - The monthly amount of the garnishment.

Business Debt in Borrower's Name

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI calculation, unless the Broker 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 the 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.

Authorized User Accounts

Accounts for which the borrower is an authorized user must be included in the DTI ratio unless it can be documented that the primary account holder has made all required payments on the account for the previous 12 months. If less than 3 payments have been required on the account in the previous 12 months, the payment must be included in the DTI.

30-day Accounts

The Broker 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 Broker must utilize 5% of the outstanding balance as the borrower's monthly debt to be included in the DTI.

The Broker must use the credit report to document that the borrower has paid the balance on the account monthly for the previous 12 months. The Broker 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.

ASSETS	**Earnest Money deposits**
	Document source of funds if amount of EMD exceeds 1% of sales price or appears excessive based on the borrower's savings history. Document by obtaining:
	• A copy of the borrower's canceled 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 EMD at the time of deposit.
	If the source of the EMD was a gift, verify that the gift is in compliance with gift requirements
	
	Large Deposits
	For recently opened accounts and recent individual deposits of more than 1% of the Adjusted Value (lesser of purchase price minus inducements or the appraised value), the Broker must obtain documentation of the deposits. The Broker must also verify that no debts were incurred to obtain part, or all, of the minimum required investment.
	Gifts
	For all gift transactions, a gift letter must be obtained along with 30 day bank statement evidencing the withdrawal from the Donor's acct.
	
	The gift letter must include the following:
	• Be signed and dated by the Donor and the Borrower
	• Donor's name, address, and telephone number
	• Donor's relationship to the Borrower
	• Dollar amount of the gift; *and*
	• A statement from the Donor that no repayment is required
	• Document with the donor's 30-days bank statement that shows at least 15 days of activity prior to the gift withdrawal
	In addition, the following must be reviewed:
	• Verify the gift funds did not come from an interested party to the transaction
	• Verify the donor's name appears on the printed cashier's check/certified check/money order
	• Bank Statement to evidence the funds were withdrawn from the donor's personal account.
	• Cash on hand is not allowed
	• Cash deposits cannot be considered as part of the gift and must be backed out of the donor's account and only if there is sufficient assets to cover the gift can they be considered.
	• Large deposits appearing on the donor's bank statement must be sourced.
	If the donor utilized a loan for the source of funds, we must confirm the loan did not come from an interested party to the transaction.
	Gift Funds being provided at closing will not be allowed without an exception from Underwriting Management.
	Gifts of Equity
	Who May Provide Gifts of Equity:
	Only Family Members may provide equity credit as a gift on Property being sold to other Family Members.
	
	Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:
	• child, parent, or grandparent;
	    o a child is defined as a son, stepson, daughter, or stepdaughter;
	    o 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

ASSETS (continued)	• Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower. Required Documentation • Fully executed 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. • Gift of equity needs to be for the "exact amount" on the gift letter and Purchase Agreement and/or Purchase Agreement Addendum OR • On gift letter it should say "up to" before the amount. • Purchase Agreement or addendum to reflect seller is giving a gift of equity with the Amount or "up to before the amount The gift money is considered the borrowers asset and excess is allowed to be returned to borrower at closing. **Reserves** Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) - 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. Gift funds can be deposited into the borrowers account to be used to pay down debt and used for MRI and closing cost. If some funds are left those funds can be used as reserves for a total scorecard loan. Gifts of equity cannot be used as reserves also manual underwritten loans cannot use gift funds as reserves. **Manual Underwrite** 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. **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. **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. **Retirement Accounts** • Most recent monthly or quarterly account statement • Use 60% and deduct existing loans unless there is "conclusive" evidence that a higher percentage may be withdrawn. • Evidence of liquidation is required if any portion is required for funds to close. **Interested Party Contribution** Interested parties may contribute up to 6% of the sales price toward the borrower's origination fees, prepaids, other closing costs and discount points. **Real Estate Tax Credits/Minimum Required Investment (MRI)** Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the minimum required investment (MRI), if the Broker 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.

DOWN PAYMENT ASSISTANCE PROGRAMS

When using Down Payment assistance the processor must provide underwriting with evidence of terms and guidelines for the DPA program upon submission to underwriting. If a file is sent in without the guidelines for the DPA, the file will be suspended.

MLS does not post guides on every DPA program, however, we allow the following FHA guidelines:

HUD does not approve DPA's administered by charitable organizations, such as nonprofits. It is up to the Lender to determine that the DPA meets all FHA requirements and that the transfer is properly documented.

Mortgagee is responsible for ensuring that an Entity providing down payment 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.

Mortgagee should check the IRS Exempt Organization Select Check to verify eligibility.

DPA's to be entered as a gift and the EIN number is required to be entered on the Transmittal.

Secondary Financing Provided by Governmental Entities

- 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
- **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 posted loan limits
  - 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
  - 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, as applicable.

NOTE: DPA's that are administered through a bond program are not allowed other than the bond programs that MLS currently is offering. A new bond program will require your manager's approval and request sent to Product Development for a new product roll out. An application should not be taken until MLS is approved to do business with the new bond program. If you are not sure if the program is a bond, the following are indications:

- If the lender has to be approved, this may be an indication of a bond program
- Does the program have a specific servicer? If so, this is most likely a bond program
- Bon loans are issued by state and local authorities and subsidize the cost of becoming a homeowner for those who meet certain income requirements.

You can also send inquiries to the UW scenario help email address: sales@midwestloansolutions.com

DOWN PAYMENT ASSISTANCE PROGRAMS (continued)	**All FHA loans with a DPA must include:** • Legal Opinion Letter dated within 2 years of the closing date (found on the Housing Agency's portal) • Gift Letter/Letter from the Housing Agency signed by an authorized government official documenting the corporations' authority as a governmental entity to operate down payment assistance programs. (found on the Housing Agency's portal)
$100 DOWN PROGRAM	Available exclusively for the purchase of HUD homes, this specialty FHA program allows for a down payment of just $100. In the standard FHA loan the minimum down payment for a purchase is 3.5 percent. • DU will never recognize the $100 down program. We will accept ineligible findings that are due to the loan amount exceeding FHA loan calculation • Any other reason is listed for the ineligible findings, those item will need to be addressed • Case number references that this is a HUD REO along with the HUD Sales Contract. • HUD Sales Contract to reflect the $100 down program Section 203(b) Mortgagees must calculate the maximum mortgage amount by subtracting $100 form the adjusted value. ***OR*** Section 203(b) With Repair Escrow Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the sum of the adjusted value plus 110% of the estimated cost of repairs, not to exceed $11,000. If the purchase agreement calls for a repair escrow, we do allow, however, it is important to remember that we need to verify what HUD is requiring on the MPR as those are all that is allowed to be included in the repair escrow. If the appraiser calls for anything additional, they would need to refer back to HUD to agree to the additional items to be included in the repair escrow. **Example:** $85,000 Sales Price $5,000 Allowed Escrow $8500 - $100 = $84,900 + $5,500 Escrow Holdback (110% of the amount) = $90,400 Final Max Base Mortgage
RESERVES	• 1 – 2 Unit Properties: No reserves required. • 3 – 4 Unit Properties: 3 months PITI. The subject property must be "self-sufficient". This means that the gross rents less the vacancy factor for all units, including the owner occupied unit, must be equal to or greater than the total payment for the subject property.
MULTIPLE MORTGAGES	Maximum 4 financed properties allowed for all borrowers cumulatively**.**
	Borrower with an existing FHA-insured mortgage for a primary residence may obtain an additional FHA-insured mortgage on a new primary residence, under the following circumstances. **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 primary residence in an area more than 100 miles from the borrower's current primary 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 primary 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: (*continued on next page)*

MULTIPLE FHA LOANS (continued)	• The borrower has had an increase in legal dependents and the property now fails to meet family needs; and • The LTV ratio on the current primary 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 primary 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 the new property to be their own primary residence. **FHA considers the spouse's residence as our borrower enjoying the benefits of home ownership. If the current mortgage is an FHA loan, then we must apply the FHA guidelines of the borrower's inability to have 2 mortgages except under special circumstances.**

REFINANCE	Types of Refinance transactions:
	
	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 3 types of no cash-out refinances:
	
	• **Rate and Term Refinance** - 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.
	    • Maximum LTV:
	        ▪ 97.75% maximum financing available if borrower has occupied the property for previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment.
	        ▪ 85% maximum financing for a borrower who has occupied the subject property as their principal residence for fewer than 12 months prior to case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership.
	    • The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.
	    • Proceeds can be used to payoff junior liens on the subject property.
	    • Maximum allowable cash back to the borrower cannot exceed $500.
	    • Standard FHA Credit and Appraisal documentation is required.
	
	• **Simple Refinance** - refers to a no cash-out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay existing FHA-insured mortgage lien on the subject property and costs associated with the transaction.
	    • Proceeds cannot be used to payoff junior liens on the subject property.
	    • Maximum allowable cash back to the borrower cannot exceed $500.
	    • Standard FHA Credit and Appraisal documentation is required.
	
	• **Streamline Refinance** – refers to the refinance of an existing FHA-insured mortgage requiring limited borrower credit documentation and underwriting.
	    • Refer to the FHA Streamline Refinance product matrix for complete details.
	
	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 purpose.
	
	• The borrower must have owned and occupied the property 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.
	
	• The borrower must have made all payments for all their mortgages within the month due for the previous 12 months or since the borrower obtained the mortgage, 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.
	
	• The borrower must have made at least six consecutive monthly payments on the loan being refinanced (initial loan), beginning with the payment made on the first payment due date **AND** the first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan.
	• Properties owned free and clear may be refinanced as a cash-out transaction.

APPRAISAL REQUIREMENTS

- <u>**FHA** 1004 Universal Residential Appraisal Report (URAR)</u>
  For all single family properties.
- <u>**FHA** Form 1073</u>
  Condominiums and Site Condos
- <u>**FHA** Form 1025</u>
  2-4 Unit properties
- DECLINING MARKETS (decline in prices/oversupply/extended marketing time)
  - There must be 2 comparables that have sold within 90 days of the appraisal date. If there aren't any, the appraiser must then provide a detailed explanation.
  - Also, the appraiser must provide 2 active listings or pending sales. This is in addition to a minimum of 3 sold comps. Appropriate adjustments must be made to the list/pending sale price.

NEW CONSTRUCTION DOCUMENTS

Required New Construction Documents **For all Properties Built in the Last 12 Months**	
Builders Certification: This document must be signed by the builder and given to the appraiser for appraiser to comment. Signed by the Borrower ***prior to closing.***	HUD- 92541
Warranty of Completion of Construction. Signed by the Borrower at closing.	HUD – 92544
** Certificate of Occupancy. This can be moved to closing with the underwriter's approval.	
**Building Permit. Obtained and cleared by underwriting prior to CTC.	
10 Year Warranty Plan Coverage. Required prior to closing IF the two **above are NOT available, otherwise can be waived if they are available.	
Final Inspection if the appraisal is subject to completion. This must be on the Compliance Inspection form (HUD-92051) and signed by the DE Underwriter. This can be moved to closing with underwriter approval.	HUD-92051
Subterranean Termite Protection Builder's Guarantee. Builder to complete and sign prior to closing. IF box 1 is checked, you will need next disclosure	NPMA-99A
New Construction Subterranean Termite Service Record. Not required if 99a has box B checked. Builder and Pest Control company completion and pest control applicator signed prior to closing if 99a indicated Box 1 checked.	NPMA- 99B
FHA Case number assignment and Enompass should show the Construction Code as New (less than 1 year).	

SELLER CONCESSIONS

6% maximum

MORTGAGE INSURANCE PREMIUMS (MIP)

Up-front Mortgage Insurance and Annual Mortgage Insurance apply as follows:

MORTGAGE INSURANCE PREMIUMS			
1.75% Up-Front MIP Premium (UFMIP) for all loan types			
Term	**LTV**	**Annual MIP**	**Duration of Annual MIP**
Greater than 15 year	>95%	.85%	Mortgage term
	> 90% but ≤95%	.80%	Mortgage term
	≤90%	.80%	11 years
15 year or less	> 90%	.70%	Mortgage term
	≤90%	.45%	11 years

ESCROW WAIVERS

Not allowed on FHA loans.

ESCROW HOLDBACKS

- Refer to the Repair Escrow Holdback Procedures on the Corporate Procedures page of the TPO Connect Website. An Escrow Holdback will only be considered due to inclement weather.

DOCUMENT AGE

- Credit Docs (existing and new construction), **120 Days**
- Appraisal, **120 Days**

EXCLUDED PARTIES LIST

Check all parties to the transaction including processor, underwriter, appraiser, and 203(k) consultant.

POWER OF ATTORNEY

Follow Power-of-Attorney guidelines posted on the TPO Connect website.

Power-of-Attorney may be used for the initial 1003 and 92900-A as follows:

- For military personnel, a POA may be used for one of the applications (initial or final), but not both:
  - When the service member is overseas duty or on an unaccompanied tour;
  - When the Broker 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.

POA can be used for the final 1003 and 92900-A provided that for military personnel, the borrower has signed the initial 1003 and initial 92900-A.