FHA Mortgage

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Brief Overview of the Product:

FHA Mortgages assist borrowers to become homeowners by offering a mortgage with lower down payment requirements and less restrictive qualifying criteria.

Third Party Originations:

Third Party originations are permitted on this product.

Terms, Program Types, Investor/SSI Codes:

All Fixed Rate mortgages are available on 15 to 30 year terms.
Buydown loans are available on 20-30 year terms.
1 Year ARM mortgages are available on 30 year mortgages only.

Fixed Product	**Investor Code**	**SSI Code**
30 Year Fixed	FHA30	426
15 Year Fixed	FHA15	119
Buydown Product		
30 Year Buydown	FHABD 30	494
ARM Margin Product		
2.00	FHARM 200	470
2.25	FHARM 225	471
Not-For-Profit		
15 Year Fixed	FHA15NP	2284
30 Year Fixed	FHA30NP	2285

Section of the Act Codes:
Prefix and Corresponding Suffix

203(b)	703 - Standard
234(c)	734 - Condo's
203(b)/251	729 - ARMs
234(c)/251	731 - Condo ARMs
203b	796 – Standard Buydown
234c	797 - Condo Buydown

Maximum Loan Amounts and LTVs:

The maximum loan amount is limited to the local Statutory Mortgage Loan Limits as published by HUD Field Offices. The most current loan limits can be found at https://entp.hud.gov/idapp/html/hicostlook.cfm. The maximum insurable mortgage is the lesser of:

1. The statutory loan limit for the area, or
2. The applicable loan-to-value factor applied to the lesser of the Sale Price or Appraised Value (exclusive of Closing Costs)

Note: Please refer to HUD Handbook 4155 and applicable Mortgagee Letters in AllRegs for requirements that would allow the mortgage amount to be increased for the following:

- Repairs and Improvements (Handbook 4155, Chapter 1, Section 2, 1-7)
- Energy Related Weatherization Items (Handbook 4155, Chapter 1, Section 2, 1-7)
- Energy Efficient Mortgage Program Loans (Handbook 4155, Chapter 2, Section 6, 2-20)

Low Closing Costs States

(Use lower of Sales Price/Appraised Value)	LTV Factor
Sales Price/Appraised Value $50,000 or less	98.75%
Sales Price/Appraised Value $50,001 to $125,000	97.65%
Sales Price/Appraised Value $125,001 or greater	97.15%

High Closing Costs States

(Use lower of Sales Price/Appraised Value)	LTV Factor
Sales Price/Appraised Value $50,000 or less	98.75%
Sales Price/Appraised Value over $50,000	97.75%

The following is a list of low and high closing cost states to help determine which LTV factor applies to your transaction.

Low Closing Costs	High Closing Costs	
STATE	STATE	STATE
Arizona	Alabama	Mississippi
California	Alaska	Montana
Colorado	Arkansas	North Carolina
Idaho	Connecticut	North Dakota
Illinois	District of Columbia	Nebraska
Indiana	Delaware	New Hampshire
New Mexico	Florida	New Jersey
Nevada	Georgia	New York
Oregon	Hawaii	Ohio
Utah	Iowa	Oklahoma
Washington	Kansas	Pennsylvania
Wisconsin	Kentucky	Rhode Island
Wyoming	Louisiana	South Carolina
	Massachusetts	South Dakota
	Maryland	Tennessee
	Maine	Texas
	Michigan	Virginia
	Missouri	Vermont
	Minnesota	West Virginia

Maximum Loan Amounts and LTVs: (continued)

Minimum Cash Investment:

The Borrower(s) must make a minimum cash investment into the deal equal to 3% of the lesser of the Sales Price or Appraised Value. The 3% may be comprised of all down payment funds or a combination of down payment and closing costs. In no circumstances may prepaids or discount points be used to satisfy the 3% contribution requirement.

The required investment must be from the Borrower's own funds, a bona fide gift, a loan from a family member, or from a governmental agency or instrumentality; it may not come from premium pricing, loans from other sources, the seller, builder, etc.

Temporary Buydowns:

- Temporary Buydown funds are permitted as follows
  - Fixed-rate only.
  - Purchase transactions only.
- Temporary Buydown are not permitted on FHA Construction-Perm loans.
- Maximum buydown is 2% below the note rate.
- Maximum interest rate adjustment is 1% and the adjustment may occur only once annually.
- Premium pricing may be used to fund the buydown.
- Must meet FHA guidelines in the 4155.1 REV-4 CHG 1 Chapter 2, Section 6, Paragraph 2-14.
- Qualify at the Start Rate for 1-2 unit properties.
- Qualify at the Note Rate for 3-4 unit properties.

Qualifying Rate, Conversion Option, Assumption, Index and Margin:

	Lifetime Cap	First Adjustment Rate Cap	Adjustment Rate Cap
1 Year ARM	5%	1%	1%

ARM rate adjustment:
In order to facilitate the pooling of these loans, the ARM first adjustment date may be more than 12 months from closing, depending on the first payment due date. Please refer to the Rate Sheet to determine the number of months until the first adjustment.

Qualifying rate:
- ARM mortgages with an LTV of 95% or greater are qualified at the initial rate plus one percent.
- ARM mortgages with an LTV less than 95% are qualified at the start rate.

Conversion Option:
No conversion option.

Loan Assumption:
For FHA mortgages originated before December 1, 1986, a creditworthiness review of the Assumptor is not required unless the seller requests a release from liability.

Index:
Weekly average yield on United States Treasury securities adjusted to a constant maturity of 1 year as published by the Federal Reserve Board.

Margin:
Refer to the Rate Sheet.

Eligible States:

All states are eligible with the following exceptions:

- For Third Party Originated Mortgages, Refer to Procedures for additional State restrictions.
- **Montana**: Properties exceeding 40 acres are ineligible
- **Texas**: Cash-Out Refinances are not permitted on Primary Residences.

Eligible Borrowers:

U.S. Citizens:

- Standard guidelines

Permanent Resident Aliens:

- FHA will insure mortgages made to lawful permanent resident aliens under the same terms and conditions as U.S. citizens.
- The borrower must have a social security number.

Not-For-Profit:

- See Procedures for availability.
- A limit of 2 loans per each "Not for Profit" Organization

Non-Permanent Resident Aliens:

- FHA will also insure mortgages to non-permanent resident aliens under the same terms and conditions as U.S. citizens.
- The borrower must have a social security number and be eligible to work in the United States

Borrowers closing in the name of a Living Trust:

- An individual borrower must remain as the beneficiary and occupy the property as a principal residence.
- Lender must be satisfied that the trust provides it with reasonable means to assure that it is notified of any subsequent change of occupancy or transfer of beneficial interest.
- The trust must appear on the security instrument.
    - The individual borrower must appear on the security instrument when required to create a valid lien under state law, but is otherwise not required to appear.
- The owner-occupant and other borrower(s), if any, must appear on the Note along with the trust.
- The individual borrower(s) is not required to appear on the property deed or title.

Property Eligibility:

Please call to inquire about eligibility if your property type is not reflected.

Eligible Properties*:

- Primary Residences 1-4 Units
- Condos
- PUDS
- Manufactured Housing
- Leaseholds

*All Properties must meet HUD's Anti-Flipping Requirements. See Anti-Flipping Rules in Property Consideration Section for details.

Ineligible Properties:

- Second Homes (Unless eligible per 4155.1 REV-4 CHG 1, Chapter 1, Paragraph 1-3)
- Investment Properties (Unless eligible per 4155.1 REV-4 CHG 1, Chapter 1, Paragraph 1-4)
- Condos with Leaseholds
- Singlewide Manufactured Homes
- Manufactured Homes in Ground Lease Communities
- Native American Leasehold Estates
- Cooperatives
- Working Farms
- Orchards

Property Eligibility: (continued)

Property Considerations:

Property ownership requirements (Anti Flipping Rule):

- Only owners of record can sell properties that will be financed using FHA mortgages. Underwriters must verify seller is owner of record. Examples of acceptable documentation are: property sales history report, a copy of the recorded deed from the seller, property tax bill, or title commitment/binder.
- An owner of record must have title to the property for 91 days or more before it can be re-sold to a buyer who wants FHA financing.
  - If the most recent sale of the property occurred at least one year previously per the appraiser, no additional documentation is required. Underwriters are still responsible to verify the owner of record as detailed above.
  - If the appraiser indicates property sold within past 12 months, a HUD-1 or other documentation must be obtained from the seller to document sales price.
  - If the re-sale is between 91-180 days following acquisition by the seller, a second appraisal must be obtained from a different appraisal company if the re-sale price is 100% or more over the price paid by the seller when the property was acquired. (The mortgage amount must be calculated using the lowest appraised value and the VC conditions from the appraisal with the lowest value must be followed.)
- The seller's date of acquisition is the date of settlement on the seller's purchase of the property. The re-sale date is the date of execution of the sales contract by the FHA buyer.
- This rule does not apply when a builder is selling a newly built home or is building a home for a homebuyer wishing to use FHA-insured financing.

Condo Requirements:

- Please submit all condos through proper channels to obtain condo approval. All projects must be FHA approved and meet FHA's condo guidelines, or meet the guidelines for "Spot Approval". The website for approved Condos is http://www.hud.gov/groups/lenders.cfm .
- California Condominium delivery fees do not apply to this product. TMO users: See Procedures for special coding requirements to ensure the delivery fee does not get charged.
- The following information is required to determine project eligibility for spot appraisals:
  - Appraisal.
  - Checklist for Spot Loan approval (Exhibit A).
  - Evidence of hazard, liability, fidelity bond (if over 30 units), and flood insurance (if needed).
  - Copy of project Declarations and By-laws.
  - See FHA Procedures for Spot Approval procedures.

PUD Requirements:

- PUD approval not required.

Three-Four Unit Properties:

- Property must be self-sufficient, i.e., the maximum mortgage amount is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100 percent.
- Borrower must qualify at the Note Rate, no consideration for buydowns may be given.
- The Borrower must have a reserve of three (3) months' mortgage payments (PITI) after closing, <u>on purchase transaction</u>.

New Construction:

- Option A - New Construction (one year old or less), where the local jurisdiction issues building permits AND performs local inspections/issues Occupancy Certificates
  - All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%) and are effective for case numbers ordered on or after October 23, 2001:

Property Eligibility: (continued)

Property Considerations: (continued)

New Construction (Continued):

⇒ An issuance of a building permit (or equivalent*) by a local jurisdiction prior to construction – this permit is acceptable evidence of "pre-approval", (a copy of the permit must be retained in the file)

⇒ An Issuance of a Certificate of Occupancy (or equivalent*) - this certificate is evidence of the local inspections

✓ FHA will no longer approve local jurisdictions to perform these inspections since the Certificate of Occupancy will be accepted as verification of these inspections.

⇒ A Final Inspection, by the Appraiser – this is needed in order for the underwriter to certify the property is 100% complete AND the property meets HUD's minimum property standards which is a requirement of the 92900-A

⇒ A 1-year Builder Warranty

⇒ Form HUD 92541 (Builder's Certification of Plans, Specifications and Site)

⇒ All applicable construction documents from the builder.

⇒ Neither an Early Start Letter nor a HUD approved 10-year warranty plan is required

*A letter from the local jurisdiction, explaining what their "equivalent" is to a building permit or occupancy certificate, must be retained in the file along with a copy of the "equivalent"

These guidelines do not apply to Condos or to Manufactured Housing due to special requirements applicable to these housing types

- Form HUD 92900-A, page 3, "Direct Endorsement Approval for a HUD/FHA Insured Mortgage", has been revised to include a check box for the lender to certify that the property is 100% complete and that the property meets HUD's Minimum Property Standards. This must be done whether the loan is using the "Alternative to Inspections" option or not.

• Option B - New Construction (one year old or less), where the local jurisdiction does not issue a building permit AND a Certificate of Occupancy

- All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%):

⇒ An Early Start Letter or Proof of enrollment in a warranty plan acceptable to HUD

⇒ For Proposed Construction, the Initial, Framing and Final inspections by the appraiser or fee inspector unless a 10 Year Warranty is obtained. If the 10-year warranty is obtained, only a Final inspection by the appraiser or fee inspection is required.

⇒ 1-year builder warranty

⇒ Form HUD 92541 (Builder's Certification of Plans, Specifications and Site)

⇒ All applicable construction documents from the builder.

Construction Inspections as listed below

Type of Construction	Proposed Construction		Under Construction		Existing, Less Than One Year	
Required Documents	Option A	Option B	Option A	Option B	Option A	Option B
Initial Inspection		X				
Framing inspection		X				
Final Inspection	X	X	X	X	X	X
Building Permit	X		X		X	
Occupancy Certificate	X		X		X	
1-YR Warranty	X	X	X	X	X	X
10-YR Warranty		X*		X		X

*If a 10-Yr Warranty is obtained the Initial and Framing Inspections are not required.

Property Eligibility: (continued)

Property Considerations: (continued)

New Construction (Continued):

- New Construction Documentation Requirements for high (over 90%) LTV loans
  - The following construction documents need to be collected for high (above 90%) LTV cases
    - ⇒ Builder's Certification of Plans, Specification, & Site (Form HUD-92541)
    - ⇒ Builder's Warranty (Form HUD-92544)
    - ⇒ 10-Yr Warranty (when required)
    - ⇒ Plot Plan
    - ⇒ Plans and Specifications required by the local authority for building permit approval.
  - In addition, If the local authority does NOT approve plans and specifications to obtain a building permit, the following additional exhibits must also be collected:
    - ⇒ Foundation or basement plans
    - ⇒ Floor plans and exterior elevations
    - ⇒ Description of Materials (Form HUD-92005)
    - ⇒ Design and local authority approval of individual water supply and/or sewage disposal system

  All other documents normally submitted, such as inspection reports, soil poisoning certifications, appraisal reports, etc., are to be collected as usual

- Construction Documentation Requirements for 90% LTV or less loans
  - For "Under-Construction" Properties
    - ⇒ The lender is to retain a copy of the architectural exhibits
    - ⇒ Builder's Certification and the Builder's Warranty are not required
  - For an "existing" property less than one-year old – 100% complete
    - ⇒ Architectural exhibits, including the Builder's Certification and warranties do NOT need to be retained

Manufactured Housing Requirements:

- All manufactured home loans must receive an Accept or Approve from LP or DU.
- Primary residences only (Second Homes will be permitted only if eligible per 4155.1 REV-4 CHG 1, Chapter 1, Paragraph 1-3)
- The manufactured home must be at least 22 feet wide and be no less than 400 square feet; Single-wides are not acceptable.
- The appraisal must state that the property has been built to conform to the Federal Manufactured Home Construction and Safety Standards established by HUD in 1976.
- Must be constructed after 6/15/76 and bear the seal showing conformance with the Federal Manufactured Home Construction and Safety Standards; The removal of the HUD label or frame is illegal per the HUD Title 6 regulations.
- Must be taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- Mortgage is for both unit and site;
- Must not have been installed or occupied previously at any other site or location;
- The manufactured home must be permanently affixed to a foundation which adheres to state and local building codes. The transportation devises (wheels, axles, and trailer hitch) must be removed. A copy of the Engineer's report is required.
- The finished grade elevation beneath the manufactured home must be at or above the 100 year return frequency flood elevation.
- For additional FHA guidelines for Manufactured Housing refer to FHA Manual 4145.1 REV-2 CHG-1 Chapter 3 Paragraph 3-4. For guidelines on Foundations for Manufactured Homes, please see FHA Manual 4930.3
- FHA appraisal requirements as documented in the 4150 HUD manual must be met
- A certification attesting to compliance of HUD-4930.3 handbook must be obtained from a licensed professional engineer and included in the file.
- Manufactured homes in ground lease communities are unacceptable

Property Considerations: (continued)

Leasehold Requirements:

- Must have a term extending at least 10 years beyond the maturity date of the mortgage.
- Ground rentals are established in the local market place, but in no case may the annual rental exceed the lesser of :
  - 12% of the site value, OR
  - The mortgage interest rate at the time of underwriting, less 2%, times the site value.
- Ground rentals may increase periodically, subject to the following:
  - Rental amounts may not be increased for the first three years of the lease term. Subsequent rental increases may occur no more frequently than once every 12 months.
  - Increases must be stated in the lease document in exact dollar amounts.
  - Establishment of future rentals by negotiation or by formula is not permitted.
  - Increases in any 12-month period may equal no more than 2% of HUD's original site valuation, but at no time may annual ground rental exceed 12 percent of HUD's original site valuation.
- Leases may not contain restrictions of assignability such as assignment by way of mortgage or assignment to or by the Federal Housing Administration or Department of Veterans Affairs or upon foreclosure, nor withhold consent for assignment because of the assignee's national origin, race, color or creed so long as the leasehold is covered by an insured mortgage or a mortgage held by the secretary or so long as the Secretary owns the leasehold.
- Subject to the exceptions listed below, the lease must permit lessee or assigns to purchase fee simple title from lessor or assigns with 30 days written notice. The option price of the fee simple title is intended to reflect HUD's recognition of value ascribed to the stream of income produced by the lease. Thus underwriting instructions require the lease to permit purchase at a price not to exceed HUD's original valuation of the leased fee. Buyer and seller may agree that this right shall not be exercised during the first five years of the lease term. See below for exceptions:
  - Where the state, including any political subdivision thereof, of the United States, an Indian Tribe, an Indian, charitable institution, a church, university or similar public purpose institution, is the lessor and an option to purchase would not be permitted under existing laws or regulation
  - Where the property is located in an area which the Commissioner has determined that the option to purchase is not economically feasible or acceptable because of the custom and practices relating to loan s ownership and its use.
- Mortgagee must have the right to correct lessee's defaults within 120 days from receipt of notice of intent to terminate lease because of such default, or such further time as may be necessary to complete foreclosure.
- The lease must provide that ownership of both the fee simple title and the leasehold estate by the same owner will not effect a merger of such estates while either estate is encumbered by a mortgage, without the written consent of the mortgagee.
- The terms of the lease must not conflict wit the terms of the mortgage.
- Manufactured homes in ground lease communities are unacceptable.

Log Homes/Unique Properties:

- Must be structurally sound
- Must be readily marketable

Properties with Legal Non-Conforming Zoning:

If the appraisal indicates a property's zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal,, specifically state the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter of addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter from the county or governing municipality must be obtained stating the property may be rebuilt "as is" in the event of a loss.

Property Eligibility: (continued)

Number of Properties Owned/Financed:

Primary Residences

- There is no limit to the number of properties owned or financed
- See additional FHA 7 Unit Limitation below

Investment Properties and Second Homes

- The maximum number of financed properties, regardless of lender, for any Borrower(s) will be limited to ten (10) including the Borrower's primary residence. In addition, the maximum aggregate loan balance for any Borrower(s) on all second home/investment properties will be limited to $2,000,000, regardless of the investor.
- See additional FHA 7 Unit Limitation below

Limit of One (1) FHA Loan:

To prevent circumvention of the restrictions on FHA-insured mortgages to investors, FHA will not insure more than one mortgage for any borrower except under certain conditions outlined in the 4155.1 REV-4 CHG 1 Chapter 1, paragraph 1-2.

A Borrower may not own more than one FHA insured property <u>unless:</u>

- Borrower is relocating to another area not within reasonable commuting distance of present home; **<u>OR</u>**
- Borrower had to vacate a residence that will remain occupied by a co-mortgagor due to new marriage or divorce; **<u>OR</u>**
- Borrower is a non-occupying Co-Borrower for a family member on another FHA mortgage.
- An increase in family size, which has resulted in the present house being ill-equipped to meet the family's needs.
  - The borrower must provide satisfactory evidence of the increase in dependents and how the property no longer meets the family's needs.
  - Borrower must also pay down the outstanding mortgage balance on the present property to 75%. A current appraisal must be used to determine loan-to-value compliance.

FHA Seven Unit Limitation:

Prohibits any Borrower from obtaining FHA-insured financing for a property that may be rented if the Borrower has or will have a financial interest in more than seven rental units (regardless of financing type) in a contiguous area, generally defined as within a two-block radius.

Appraisal/Survey/Inspection Requirements:

Appraisal:

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA standards.

- The appraisal report must be dated within 180 days of the note date, for New Construction, no more than 12 months old. (See Date of Conditional Commitment)
- See Property Considerations Section for appraisal requirements associated with the FHA Anti-Flipping Rule.
- Operating Income Statement will be required on all 2-4 unit properties.
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted. Refer to Procedures for details.
- On Streamline Refinances with an appraisal, a **NEW** appraisal is always required. A re-certification of value is not acceptable

Survey:

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

A copy of the survey, whether new or existing, is required to be in the closed loan package.

Appraisal/Survey/Inspection Requirements: (continued)

Inspection:
With the exception of Streamline Refinance transactions, all FHA loans will require a Termite inspection.
Well inspections will be required, if applicable (not required on Streamline refinance transactions).
Septic or other inspections may be required at the discretion of the Underwriter or Appraiser.

Escrow:

An escrow account must be established for real estate taxes, hazard insurance and if applicable, monthly mortgage insurance and/or flood insurance.

Postponed Improvement Escrow:

Refer to Procedures.

Mortgage Insurance Premium:

- The Upfront MIP is determined by multiplying the base loan amount by the Upfront Premium factor
    - UFMIP is not collected for 234c (Condo)s and 203k loans.
- The Annual MIP is determined by multiplying the base loan amount by the appropriate Annual Premium factor. Since the Annual MIP is collected in monthly installments, divide the resulting number by 12 to obtain the monthly premium. This figure is included in the proposed monthly housing expense and qualifying ratios.
- Upfront MIP Factor: 1.50%
- Annual MIP Factor:
    - 0.500% for all loans with a mortgage term >15 years.
    - 0.250% for all loans with a mortgage term of ≤15 years **and** an LTV of 90.00% and up.
    - There will be no Annual MIP for loans with mortgage terms of 15 years or less **and** LTVs of 89.99% and under [excluding condos and 203(k) loans]
    - For Condos and 203(k) loans since there is no up front MIP, the Annual MIP will be collected the entire length of the loan.

<u>Streamline Refinances</u>
- Streamline refinances of mortgages closed *before* July 1, 1991 are subject to an Upfront MIP of 1.50%, but are not subject to the annual premium.
- Streamline refinances of mortgages closed *on or after* July 1, 1991, are subject to the 150% Upfront MIP plus the appropriate Annual MIP.

Refinance Requirements:

Refer to FHA Handbook 4155.1 REV 4 CHG-1 for further information on Refinances.
It is not appropriate to include in the new mortgage amount the sum of any mortgage payments “skipped” by the homeowner. For example, a borrower whose mortgage is due November 1st and expected to close the refinance before the end of November is not permitted to roll the November payment into the new HFA loan amount. The borrower is to either make the payment when due or bring the monthly mortgage payment check to settlement.

<u>No Cash-Out Refinance</u>:
- Loan amount is limited to:
    - Payoff of the first mortgage.
    - Payoff of subordinate liens that are more than one year old.
    - Paying related closing costs and discount points and prepaids.

No Cash-Out Refinance Continued:

- The maximum mortgage may not exceed the **lesser** of the following three calculations:
  - Appraised value plus closing costs (discount points may not be included) multiplied by the appropriate loan-to-value ratio (97%/95%/90%), **OR**
    - ⇒ Amount > $125,000 = 97% of the first $25,000, plus 95% of the remainder up to $125,000, plus 90% of the amount over $125,000
    - ⇒ Amount ≤ $125,000 = 97% of the first $25,000, plus 95% of the remainder
    - ⇒ Amount ≤ $50,000 = 97% of the amount
  - Sum of the existing first lien and related settlement costs for the refinance, **OR**
  - Appraised value without the closing costs multiplied by 97.75% for values > $50,000 or by 98.75% for values ≤$50,000.

  (NOTE: The maximum base loan amount cannot exceed the statutory limit for the area.)
- If the subordinate lien is an equity line, and there have been advances in excess of $1,000 within the past 12 months for purposes other than repairs and rehabilitation of the property then the line of credit is not eligible for inclusion in the new mortgage.
- Subordinate liens may remain subordinate as long as they meet FHA guidelines on subordinate financing.
- Payoff of an ex-spouse's or other co-mortgagor's equity is permitted and not considered cash-out as long as the divorce decree, settlement agreement, or other bonafide equity agreement documents the equity awarded.
- FHA will permit the interest charged since the first of the month to be included in the payoff.

Cash-Out Refinance:

- For properties owned one year or more, the maximum loan amount is 85% of the sum of the appraised value and closing costs (discounts and prepaids may not be included) provided the property has been owned at least one year.
- For properties owned less than one year, the lesser of the appraised value plus closing costs or the original sales price plus the current closing costs is multiplied by 85% to determine the maximum loan amount.
- Properties owned free and clear may be refinanced in this manner.
- Note: The maximum base loan amount cannot exceed the statutory limit for the area.
- Cash-Out for debt consolidation represents considerable risk and must be carefully evaluated.

Refinance of an Officer/Teacher Next Door Mortgage:

- Refinancing a 203(b) Officer/Teacher Next Door mortgage to a 203(k) mortgage (see FHA 203(k) Guidelines)
- Refinancing a 203(b) Officer/Teacher Next Door mortgage to a 203(b) mortgage **only** when reducing the interest rate.
  - The borrower cannot receive any money back at closing
  - The 2nd mortgage being held by FHA will have to be subordinated using the attached subordination agreement.

Streamline Refinance Requirements:

- **Mortgage Calculations With a New Appraisal:**
  - A **NEW** appraisal is required. A re-certification of value is not acceptable.
  - The maximum base loan amount will be limited to the **lesser** of the following two calculations:
    - ⇒ Multiply the property's appraised value by the appropriate state factor.
    - ⇒ The sum of the existing FHA insured first lien, (which by HUD's definition includes payoff interest, but may not include delinquent interest, late charges or escrow shortages), plus closing costs, reasonable discount points and the prepaid expenses necessary to establish the escrow account (which includes per diem interest charges, as well), minus the lesser of the MIP refund or the new UFMIP.
    - ⇒ **NOTE**: The maximum base loan amount cannot exceed the statutory limit for the area.
  - Re-warranting of Condo and PUD projects (based on current information) is required.

Refinance Requirements: (continued)

Streamline Refinance Requirements (continued):

- **Mortgage Calculations Without a New Appraisal:**
  - The term of the new mortgage is the lesser of 30 years or the unexpired term of the current mortgage plus twelve (12) years.
  - The LTV on streamline refinances without an appraisal will be based on data regarding the mortgage being refinanced, including sales price and appraised value amounts residing in FHA's Single Family Insurance System (SFIS). FHA will compute a new LTV by dividing the new loan amount, exclusive of any upfront MIP, by the lower of the sales price or appraised value amount. If a computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default to 89.99 percent.
  - For Owner-Occupied properties only, the new base loan amount may not exceed the lesser of
    - ⇒ The original principal balance of the loan being refinanced (this is the actual original note amount) OR
    - ⇒ The sum of the existing FHA insured first lien, (which by HUD's definition includes payoff interest, but may not include delinquent interest, late charges or escrow shortages), plus closing costs, reasonable discount points and the prepaid expenses necessary to establish the escrow account (which includes per diem interest charges, as well) minus the MIP refund. This will be the new base loan amount before including the new MIP.
    - ⇒ **NOTE:** The maximum base loan amount cannot exceed the statutory limit for the area.
  - Condo and PUD projects do not have to be re-warranted.
  - Non-occupant owner properties may only refinance the outstanding balance of the existing mortgage.

- **Additional Requirements For All Streamline Refinances:**
  - Loans must be current to be eligible.
  - No cash-out to the Borrower.
  - Borrowers are not required to provide evidence of cash to close.
  - No termite inspection is required
  - No credit report is required except for the following conditions:
    - ⇒ An In-File credit report is required if the new base loan amount exceeds the old base loan amount. Lender must verify the borrower has a satisfactory payment history on the mortgage being refinanced and has not otherwise exhibited a disregard for credit. Additional mortgage debt MAY NOT be incurred if the borrower's payment history is unsatisfactory.
  - No CAIVR number is required.
  - No verification of employment or paystubs are required.
  - No verifications of deposit or bank statements are required.
  - No face to face Interview is required.
  - An Investor may not have an interest in more than seven (7) contiguous rental units in an area.
  - Second mortgages may be subordinated.
  - Loans that are streamline refinancing to an ARM are limited to owner-occupied principal residences only.
  - A 30 year mortgage can be refinanced to a 15 year mortgage. The new P&I payment cannot increase more than $50. Mortgages on investment properties cannot incur any increase in payment.
  - If the loan being refinanced has undistributed buydown funds, the undistributed buydown funds must be subtracted from the principal balance (for streamline refinances without appraisals) before beginning the mortgage calculations. For all other refinances, the undistributed funds may be utilized to fund the closing costs but cannot be refunded to the Borrower.
  - A Borrower may be deleted provided the change in title occurred at least six (6) months previously, and the remaining Borrower(s) can provide evidence they alone have made the mortgage payments during that period. This policy only applies to those loans that do not contain restrictions limiting assumptions only to credit worthy persons (typically, those mortgages made prior to December 15, 1989 are freely assumable) or where the transferability restrictions (due-on-sale clause) cannot be triggered, such as in a divorce where the property transfer results from the Divorce Decree.
  - HUD will require the mortgagors who assumed an FHA insured mortgage without the benefit of a credit review to have owned the property for at least six months before being eligible for the streamline refinance program. A HUD-1 from the assumption sale is required as evidence of closing date.

Refinance Requirements: (continued)

Streamline Refinance Requirements (continued):

- **Additional Requirements For All Streamline Refinances (continued):**
  - Those mortgages containing the restrictive clauses where the deletion of a Borrower may result in mortgage acceleration, and for those situations where the six (6) months waiting period has not occurred, a "Credit Qualifying' procedure must be followed.
    - ⇒ Income verification, credit report provided, and computation of qualifying ratios is required. All other aspects of a 'Streamline' refinance are in place (i.e., no appraisal and possible exemption from the annual premium).
  - An ARM may be refinanced to another Arm on owner-occupied principal residences provided that an immediate payment reduction occurs and that the maximum interest rate of the new mortgage does not exceed the maximum interest rate of the old mortgage being refinanced.
  - Refinancing of a Fixed Rate to an ARM is allowed on owner-occupied principal residences when the initial interest rate of the new mortgage is at least 2% below the interest rate of the current mortgage.
  - An ARM may be refinanced to a Fixed-Rate mortgage provided the interest rate on the new fixed rate mortgage will be no greater than 2% above the current rate on the ARM. In addition, if the fixed rate would exceed that of the existing ARM rate, all mortgage payments must have been made within the month due for the past twelve (12) months, or for the number of months the loan has been in existence. If the fixed rate does not exceed that of the current ARM rate, the "within the month due" rule does not apply.
  - A GPM may be refinanced to an ARM on owner-occupied principal residences provided the note rate results in a reduction to the current P&I payments. (If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization and the new UFMIP).
  - A GPM may be refinanced to a Fixed-Rate provided the new mortgage payment will not exceed the current payment. (If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization and the new UFMIP).

Subordinate Financing:

Calculating CLTV (Combined Loan to Value) ratio:

- Divide the sum of the first lien mortgage and the total HELOC credit line limit and any other secondary financing by the lower of the sale s price or appraised value

The following requirements must be met when down payment assistance, in the form of secondary financing, is received in conjunction with a FHA First Mortgage (for down payment assistance provided by gift funds, see the "Assets" section of the guidelines) :

- If there are any occupancy requirements or resale restrictions they must automatically and permanently terminate upon foreclosure, or assignment of the insured mortgage to HUD. The relevant legal documents must have language that accomplishes this result.
- Subordinate financing combined with the FHA first mortgage may exceed the value of the property provided that:
  - The governmental unit or nonprofit instrumentality of the government providing the financing is supporting or engaging in a neighborhood revitalization effort as approved by the local HOC for that area.
  - Repayment of the subordinate lien is due only when the property is sold or the mortgage is paid in full
- **Federal, state and local governmental agencies** may provide secondary financing for the Borrower's entire cash investment requirement. No FHA approval of the agency is required.
  - The FHA-insured first mortgage when combined with the second mortgage, as well as any other mortgages, grants, etc. may not result in cash back to the borrower. Borrower must make cash investment of at least 3 percent of the cost to acquire the property (which may be met with proceeds from the second lien).
  - The sum of all financing may not exceed 100 percent of the cost to acquire the property plus any normal prepaid expenses.
- **Non-profit agencies that are considered instrumentalities of government** may also provide secondary financing for the entire cash investment. However, the local FHA office is responsible for approving the non-profit agency. Please be sure to obtain documentation that the non-profit has been approved and is considered to be an instrumentality of government by FHA. Borrower must make cash investment of at least 3 percent of the cost to acquire the property (which may be met with proceeds from the second lien).

Subordinate Financing: (continued)

- **Non-profit agencies not considered instrumentalities of government** could also provide secondary financing as long as the Borrower makes a cash investment of at least 3 percent of the cost to acquire the property (which **cannot** be met with proceeds from the second lien). Again, the local FHA office must have approved the non-profit agency.
- **Institutional Lenders and private individuals** may provide secondary financing under the following conditions:
  - The combined amounts of the first and second mortgages do not exceed the applicable loan-to-value factor and the maximum mortgage limit for the area.
  - The repayment terms of the second mortgage must not provide for a balloon payment before ten years (or other such term acceptable to FHA), unless the property is sold or refinanced, and must permit prepayment by the Borrower, without penalty, after giving the lender 30 days advance notice.
  - The required monthly payment under both the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the Borrower's reasonable ability to pay. Any periodic payments due on the second mortgage are due monthly and are substantially the same in amount.
  - Borrower must make a cash investment of at least 3 percent of the cost to acquire the property.
- **Family members** are permitted to lend, on a secured or unsecured basis, 100% of the Borrowers' required cash investment which may include the down payment, closing costs, prepaids, and discount points. Please refer to ML 96-58 (Exhibit B) for all the terms and conditions.

Refer to FHA Handbook 4155.1 REV-4 CHG-1 and ML 96-58 (Exhibit B) for all of the requirements regarding secondary financing.

See Procedures for approval requirements.

Documentation Options:

Full / Alternative Documentation:

Only alternative or full documentation is permitted.

Refer to Procedures for information regarding coding the Qualifying Income Field.

NOTE: Certified true copies may be used in lieu of the original if using Alternative Documentation.

Underwriting:

Generally, all loans will be underwritten to FHA guidelines along with the underwriting parameters outlined in these guidelines.

NCM has delegated underwriting authority.

Submission:

Submit original package to your local underwriting center.
NCM has delegated Underwriting Authority.

Use of Automated Underwriting:

- The use of LP or DU is permitted on this product.
  - All FHA loans with a FICO less than 585 or with ratios above 29/41 MUST be submitted through LP or DU
  - Loans receiving “Refer with Caution” or “Caution” rating must be reviewed by a manager and a second signature is required.
  - Loans receiving a “Refer” recommendation must meet the following requirements:
    - ⇒ If the FICO indicator score is below 585, the loan must be reviewed by a manager and a second signature is required
    - ⇒ If the FICO indicator score is above 585, the loan may be manually underwritten by the underwriter using appropriate compensating factors. Compensating factors must be listed on the MCAW.
- Any documentation relief can be utilized on this product.
- Any appraisal relief cannot be utilized on this product.
- Any A- offerings cannot be used.

Credit Scores:

Minimum credit score: 585. Loans with a below 585 FICO score must meet the DU and LP guidelines stated above.
Selecting the Score:

We require the “Middle/Lower then Lowest” method to be used when selecting the credit score. To use the “Middle/Lower then Lowest” method, the Underwriting Score for each Borrower must be determined.

If three usable FICO scores are received for a Borrower, the Underwriting Score selected would be the middle score. If two of the scores are the same, that score should be used.

If only two usable FICO scores are received for a Borrower, the lowest of those two scores would be that Borrower’s Underwriting Score.

This procedure to establish Underwriting Scores should be used for each Borrower on the loan. Once the Underwriting Score for each Borrower is determined, the lowest of these scores should be used (if more than one Borrower is on a loan) to determine if minimum FICO requirements are met as listed in the Credit Score Requirements section above.

Qualifying Ratios:

Qualifying ratios are: 29%/41%

- If ratios are exceeded, loan must be run through DU or LP. See “Use of Automated Underwriting” section above.
- **Installment debt obligations** which extend ten (10) or more months must be included in the Borrower's debt-to-income ratios. Debts lasting less than ten (10) months must be counted if the amount of the debt affects the Borrower's ability to make the mortgage payment during the months immediately after the loan closing.
- **Child care expense** does not need to be included as a recurring debt.
- **Child Support Payments** must be counted in the total debt- to-income ratios if they will continue for 10 or more months
- **Debts not counted in Ratios:** Funds to cover the required investment may be obtained from certain types of loans secured against deposited funds, (such as signature loans, cash value of life insurance policies, loans secured by 401Ks, etc.), in which the repayment may be obtained through extinguishing the asset, do not have to be included in the qualifying ratios. However, these assets securing the loan may not be included as assets available to the Borrower.
- **Contingent Liabilities**:
  - **Mortgage Assumptions**: If the borrower is listed as a borrower on a mortgage that has been assumed by another, a copy of the documents transferring the property and any assumption agreement executed by the transferee are required. The debt must be counted against the Borrower unless:

Qualifying Ratios: (continued)

- **<u>Contingent Liabilitiees (continued):</u>**
  - **<u>Mortgage Assumptions(continued)</u>**
    - ⇒ A prior 12 months satisfactory payment history from assumptor is provided;
    - ⇒ An appraisal is obtained showing equity in previous property is 75% or less (minus any upfront MIP, if applicable); or
    - ⇒ Borrower obtains release of liability.
  - **<u>Court-Ordered Assignments of Debt</u>**: If a secured debt or mortgage has been assigned by court order (i.e. divorce decree) to another person, the contingent liability must still be counted since borrower is still legally obligated to this debt.
  - **<u>Other Credit Liabilities</u>**: If the Borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the Borrower's debts.
    - ⇒ To disregard the liability, evidence must be obtained to show timely payments are being made by someone other than the Borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months.
    - ⇒ If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the Borrower's qualifying ratios.
- Prior Home PITI Payment and/or Bridge Loan Payment must be considered in the DTI ratio.

Non-Occupant Co-Borrowers:

- **Non-Occupant Co-Borrowers are permitted with the following limitations:**
  - Maximum financing is permitted for Borrowers related by blood, or for unrelated individuals that can document evidence of a family-type, long-standing and substantial relationship not arising out of the loan transaction.
  - Properties are limited to one-unit single family if the LTV exceeds 75%.
  - Transactions in which parents help their children buy their first home or assist a child who is a college student to purchase a house near campus is permitted as long as the non-occupant Co-Borrower is not developing a portfolio of rental properties. Therefore, the amount of financial contribution by the non-occupant Co-Borrower and the number of properties similarly owned must be looked at closely.
  - For loans where the non-occupant Co-Borrower is not related by blood, or evidence of a family-type long standing relationship, the maximum LTV will be limited to 75%.

Stable monthly income is the Borrower's verified gross monthly income from all verifiable sources which can reasonably be expected to continue .

- **<u>Salaried Borrowers:</u>**
  - Evidence of a two year history of employment is required
  - Documentation Required:
    - ⇒ Written VOE with most recent paystub **<u>OR</u>**
    - ⇒ Paystubs for the most recent 30 day period showing year-to-date income; and
    - ⇒ W-2 forms for the past 2 years; and
    - ⇒ Verbal VOE and
- **<u>Other Income</u>:** (i.e., bonuses, overtime, commissions, additional part-time employment or unemployment)
  - Sources of **<u>other income</u>** may be used to qualify the Borrower, provided it has been received for the past two years and ther are reasonable prospects of its continuance. A 12 to 24 month history may be considered if there are compensating factors that reasonably offset the shorter income history.
  - Commission Income
    - ⇒ 24 month average is required
    - ⇒ Schedule A of the Borrowers tax returns must be obtained to document unreimbursed business expenses. A 24-month average of the expenses must be deducted from income.

Income Requirements:

- **<u>Other Income (continued):</u>**
  - Bonus and Overtime
    - ⇒ 24 month average is required
    - ⇒ If received less than two (2) years may be considered on a case-by-case basis. The earnings trend over that period of time of receipt must be established and analyzed; adequate documentation must be provided; the employer must state the bonus or overtime is likely to continue; and the reasoning for using this income must be justified.
  - Part-time income
    - ⇒ defined as jobs <u>taken in addition</u> to the normal regular employment to supplement the Borrower's income. If a Borrower's regular employment is simply less than a typical 40 hour work week, the stability of that income should be evaluated as any other regular on-going primary employment (i.e.: a registered nurse that has been working 24 hours per week for the last year. This is the Borrower's primary job, even though less than 40 hours, and it should be included as effective income).
- **<u>Self-Employed Borrowers:</u>** A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.
  - Must have been established for a minimum of 2 years. A 12-24 month history will be considered provided the borrower has at least two years previous successful employment (or a combination of 1 year employment and 1 year formal education or training) in that occupation, or a related occupation.
  - Must have a signed 4506.
  - Copies of the past two years' signed individual federal income tax returns.
  - Copies of the past two years' signed business income tax returns if the business is a Corporation or an "S" corporation, or partnership
  - A balance sheet and Profit and Loss statement are required.
  - A business credit report is required on corporations and "S" corporations.
- **<u>Alimony, Child Support and Separate Maintenance Payments:</u>** If an applicant chooses to disclose the aforementioned items, proof evidencing the continuance of such payments for the next three (3) years is required.
  - The borrower must provide a copy of the divorce decree, legal separation agreement or voluntary payment agreement, and,
  - Evidence that payments have been received during the last twelve months. Acceptable evidence includes cancelled checks, deposit slips, tax returns, court records, etc.
  - Periods of less than 12 months may be acceptable provided the payor's ability and willingness to make timely payments is adequately documented.
- **<u>Non-Employed:</u>** This category includes many sources of passive income such as: social security, pension income, interest income etc.
  - The underwriter must be confidant this income will continue for the next three years.
  - Documents provided can be any of the following as applicable: award letter, pension statement, IRS 1099, the most recent signed pages 1 and 2 of individual income tax returns, or other documents.**)**
  - For all tax-exempt income, the income must be grossed up once its continuance for three years has been established.
- **<u>Section 8 Income</u>**: If borrower is to receive subsidies under the housing choice voucher homeownership option program from a Public Housing Agency
  - Assume that the subsidy will continue for at lest three years making the subsidy eligible to be considered as effective income for qualifying purposes.
  - Monthly subsidy may be treated as income in determining the homebuyer's qualifying ratios.
  - This subsidy is non-taxable, therefore may also be "grossed up" by 25%.
  - Identify as a Section 8 subsidized mortgage loan by entering "88" as the program identification code in CHUMS.
- **<u>Rental Income:</u>**
  - **Subject 2-4 Unit Primary Residence:**
    - ⇒ The rent received from the additional units not occupied by the Borrower may be used for qualifying purposes. The rent (after subtracting the local FHA offices estimate for vacancies and maintenance, or 25% if the local FHA has not established a separate allowance) may be added to the Borrower's gross income in calculating the qualifying ratios; it may not be used to off-set the monthly mortgage payment.

Income Requirements: (continued)

- **Investment Properties and 2-4 Unit Primary Residences other than the subject property:**
  - ⇒ Signed leases may be used to calculate gross rents only if they property was acquired since the last income tax filing and is not shown on the Schedule E. However, no more than 75% of the gross rental income can be used.
  - ⇒ For properties listed on the Schedule E from the Borrower's 1040s, depreciation may be added back to the net income or loss shown. Lender must make certain the borrower still owns each property listed on the Schedule E.
  - ⇒ If six or more units are owned by the borrower in the same general area, a map disclosing the locations must be submitted evidencing compliance with HUD's seven unit limitation

- **Trailing Co-Borrower Income:**
  - Not permitted to be used to qualify.

Asset Requirements:

Reserve Requirements:

- 3 month's PITI is required on all 3-4 unit properties.
- No reserves are required for all other transactions.

Asset Documentation:

- Written VOD with the most current bank statement OR
- Two months original bank statements covering the most recent three month period.
- The Borrower may pay for their credit report and appraisal fee on a credit card. The source of the fees must be documented by copy of personal or visa check, visa slip, bank or visa statement, or written on the Good Faith Estimate. The new visa payment must be counted into the ratios for qualifying the Borrower.

Loan From Family Members:

- **Family members** are permitted to lend, on a secured or unsecured basis, 100% of the Borrowers' required cash investment which may include the down payment, closing costs, prepaids, and discount points. Please refer to ML 96-58 (Exhibit B) for all the terms and conditions.

Unacceptable Sources of Down Payment:

- Proceeds of a personal or unsecured loan unless from family member. (See "Subordinate Financing" section)
- A gift that must be repaid in full or in part
- A cash advance on a revolving charge account or unsecured line of credit

Gift Fund Requirements:

- An outright gift of the cash investment is acceptable if the donor is a relative of the borrower, the borrower's employer or labor union, a charitable organization, a governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers, or a close friend with a clearly defined interest in the borrower
- List donor's name, address, phone number, relationship to Borrower and dollar amount of gift on the gift letter, signed by the donor.
- For gift funds already on deposit in the Borrower's account, obtain a copy of the donor's withdrawal slip or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit.
- If the gift funds are not deposited to the borrower's account prior to closing, the following must be obtained:
  - Verification the closing agent received funds from the donor, including proof of withdrawal, for the amount of the gift.
  - The use of cashier checks, money order, official check or any other type of bank check will be acceptable provided the donor provides a withdrawal document for the amount of the gift showing the funds came from the donor's own personal account. If the donor borrowed the gift funds, documentation must be provided that the funds were borrowed from an acceptable source, i.e., not from a party to the transaction including the mortgage lender.

Asset Requirements: (continued)

Gift Fund Requirements (continued):

- CASH ON HAND IS NOT AN ACCEPTABLE SOURCE OF THE DONOR'S GIFT FUNDS.
- Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes funds to the nonprofit organization are acceptable as gifts and are NOT included in the 6% seller concession, provided 4155.1 REV-4 Chg 1 guidelines Section 3 2-10 C are met. Additionally, the seller contribution to the nonprofit must occur after closing. These programs cannot be used to payoff borrower's debt.

Cash Saved at Home:

- Borrowers who have saved cash at home and are able to adequately demonstrate the ability to do so, are permitted to use this money as an acceptable source of funds to close.
- Funds must be verified either on deposit in a financial institution or held by the escrow/title company.
- Additional documentation must include evidence provided from the Borrower showing ability to accumulate such a savings; and written explanation from the Borrower on how such funds were accumulated and the amount of time taken to do so.
- Special consideration will focus on the amount of the Borrower's income, the time period the funds were saved, spending habits, and the Borrower's history of using financial institutions in order to determine the reasonableness of the accumulation of the funds.

Homeownership Bridal Registry:

- Provides couples planning to get married, and other individuals who are in a situation where gifts are typically received, the opportunity to establish a savings account in order to help them accumulate gift funds to be used towards the down payment on the purchase of a home.
- In the situation of a couple planning to get married, the originating office is to give the Borrowers some form letters (Exhibit C) completed on the Originating Office's Letter Head that the Borrowers can distribute to their family and friends.
- When gift funds are being received for a situation other than a couple planning to get married, it will be up to the individual(s) to notify their family and friends of the program.
- The Borrowers are to open a new interest bearing savings account at the Bank of their choice.
- Funds may be deposited by family and friends directly into the Bridal Registry Account, or given by cash or check to the couples or individuals for deposit.
- A copy of the bank statement and/or account ledger verifying the deposits and a fully executed Lender and Borrower Certification (Exhibit D) must be included in the HUD case binder.

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties are acceptable with the following limitations:

- Maximum contribution is 6% of the property's sales price towards the buyers actual closing costs, prepaid expenses, discount points and other financing concessions. Included in the 6% limitation are buydown funds and payment of the UFMIP.

Abatement Requirements:

- Allows the Seller/Builder to pay the Borrowers monthly interest for a period of up to six months.
- Purchase transactions only.
- Fixed Rate mortgages only.
- Seller/Builder may pay up to 6 months of the borrowers interest but not exceeding 6% of the sales price.
- The total sellers contribution on FHA loans is 6%. The abatement amount is included in that 6% figure.
- The total abatement amount due from the Seller is equal to six or less amortized interest payments. The total abatement amount must be equal to exactly the total amount of interest for the number of payments to be abated. The Borrower may not be expected to pay a partial payment of interest during the abatement period.
- An abatement worksheet (Exhibit E) showing the total abatement due from the Seller and a breakdown of the principal amount the Borrower is to pay each month for the first six months or less of the loan must be completed using an amortization schedule obtained from TMO or AT before the loan is set up. The loan number and/or last name are not needed to obtain an Amortization Schedule.

Interested Party Contributions:

Abatement Requirements (continued):

- Total up the interest portion of the first six or less payments and put the total figure in the "Abatement Due From Seller" section. (See Exhibit E example).
- Fill in the principal due each month from the Borrower for the first six or less months directly off of the amortization schedule. (See Exhibit E example).

- The amount of the abatement will be placed in a separate escrow account to be used in conjunction with the Borrowers payment of principal and escrow.
- An FHA Mortgage Loan Abatement Program Disclosure and Abatement Program Agreement are required.
- See procedures for special TMO system procedures.

Non-Arms Length Transactions:

Non-Arm Length Transactions, or as FHA refers to them as Identity-of-Interest Transactions on principal residences are restricted to a maximum loan-to-value of 85%. Identity-of-Interest is defined as a transaction between family members, business partners or other business affiliates. However, maximum financing above 85% LTV is permissible under the following circumstances:

- A family member purchasing another family member's principal residence.
- An employee of a builder purchasing one of the builder's new homes or models as a principal residence.
- A current tenant purchasing the property that he or she has rented for at least 6 months predating the sales contract. A lease or other written evidence must be submitted verifying occupancy.
- Sales by corporations that transfer employees out of an area, purchase the transferred employee's home and then resell to another employee.

If a property being sold from one family member to another is the seller's investment property, the maximum mortgage is the lesser of either:

- 85% of the sum of the appraised value plus the allowable percentage of closing costs OR
- 97/95/90% of the sales price plus or minus required adjustments including the allowable closing costs.

The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months predating the sales contract. A lease or other written evidence must be submitted verifying occupancy.

Closing Requirements and Special Forms:

Manufactured Homes:

- You must use a special closing addendum when the property type is marked as Manufactured Housing. You must print the forms from the Product Information section of the Website. The forms are located within the "Miscellaneous Forms, Information and Miscellaneous Bulletins" folder.
- The state may require additional requirements, so please check with your title company for additional restrictions/requirements when preparing a closing package for this property type.
- The closing instructions must state that we require the property to be taxed as real estate and hold first lien position.
- The VIN (vehicle identification number) must be on the title policy and on the Alta 7 endorsement
- The manufactured home must be described in the Security Instrument and the description should contain the year, make-model and HUD serial number(s) for each section of the unit.
- Must obtain an insured closing protection letter from each agent (unless prohibited by state law).
- Refinance transactions: Check with the closing agent to make sure existing loan is titled as real property.
- All other standard closing requirements must be met.

Closing Requirements and Special Forms: (continued)

Please use the most current of the forms listed below:

Buying Your Home - Settlement Cost and Helpful Information - A HUD Guide

Homeowner's Fact Sheet (FHA)

Adjustable Rate Mortgage Loan Program Disclosure
- "The FHA ARM 2.00 Margin" - Form #1383
- "The FHA ARM 2.25 Margin" - Form #1384
- "The FHA ARM 2.50 Margin" - Form #1313
- "The FHA ARM 2.75 Margin" - Form #0186
- "The FHA ARM 3.00 Margin" - Form #1406

"For Your Protection: Get a Home Inspection" Form

Existing loans Form NPCA-1 Wood Destroying Insect Infestation Inspection Report

New Construction loans - revised NCPA-99a and current NPCA-99b

<u>FHA Fixed Rate Mortgage Note</u>
FHA Multistate Note or the appropriate FHA Note where the property is located.

<u>1 Year Non Convertible ARM</u>
FHA ARM Multistate Adjustable Rate Note or the appropriate FHA Adjustable Rate Note where the property is located.
FHA ARM Multistate Rider

FHA Mortgage/Deed of Trust for the state where the property is located
HUD Initial Escrow Statement

<u>If applicable</u>:
Signed copy of 4506 if Taxed Returns are used to verify income
1-4 Family Rider Multistate – Form 3170
FHA Condominium Rider
Condo Endorsement ALTA 4
FHA PUD Rider – Form 3150
PUD Endorsement ALTA 5
Location Endorsement ALTA 9 (Required in areas where surveys are not customary.)
Manufactured Housing Endorsement ALTA 7
FHA Annual Disclosure ARM Notice
Revocable Trust Rider

Interim Interest Credits:

Interim Interest Credits are permitted. Loan closing must be within the first five (5) days of the month to receive the credit.

Prepayment Penalty:

There will be no prepayment penalties on this program.

Servicing:

This product is servicing retained.