PROGRAM DESCRIPTION

The FHA was established as a division of the U.S. Department of Housing and Urban Development (HUD) in 1934 to expand homeownership opportunities, increase minority homeownership, and make the home buying process less complicated and less expensive.

NOTE: FHA program descriptions are not intended to replace the 4155. Refer to the 4155 for guidelines that do not appear here for further details: http://www.hud.gov/offices/adm/hudclips/handbooks/hsgh/4155.1/41551HSGH.pdf

FHA Frequently Asked Questions site (FAQs): http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ

PROGRAM PARAMETERS

PROGRAM	TERM	PROGRAM CODE
FHA FIXED	30, 25, 20 YRS	FHA30
FHA FIXED STREAMLINE	30, 25, 20 YRS	FHA30S

ELIGIBLE LOAN PROGRAMS AND DESCRIPTIONS

Section 203(b) [ADP CODE: 703] – Mortgage Insurance for 1 - 4 Family Homes:
FHA Section 203(b) insures mortgages for the purchase or refinance of 1 - 4 unit family homes.

Section 234(c) [ADP CODE: 734] – Condominium Housing Program:
FHA-approved condominium projects only. To determine which projects are FHA-approved, refer to the following website: https://entp.hud.gov/idapp/html/condlook.cfm

High Balance: Use specified investor – see their guidelines and pricing in PML.

15 Year Term: Use specified investor – see their guidelines and pricing in PML.

INELIGIBLE LOAN PROGRAMS AND DESCRIPTION

- **Section 238(c) Military Impact Area: Not offered**
- **Section 8 Loans: Not offered**
- **Section 203(H) Disaster Loans: Not offered**
- **Section 251: Adjustable-Rate Mortgage (ARM): Not offered at this time – use investor.**
- **Section 184: Native American Loans: Not offered.**
- **Section 203(k) & 203(k) Streamlines: Not offered at this time use investor.**
- **Energy Efficient Mortgages (EEM): Not offered at this time use investor.**
- **Good Neighbor Next Door (GNND): Not offered at this time use investor.**
- **HUD $100 down program (HUD REO): Not offered at this time use investor.**

OCCUPANCY

PRIMARY RESIDENCE

A primary residence is a property that will be occupied by the borrower the majority of the calendar year and meets the following criteria:

- 1 - 4 units, PUDs, Site Condos, FHA-approved condos.
- At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied.
- The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year.
- 3 - 4 unit properties require an occupancy declaration to be signed by all borrowers. See FHA 4155 handbook section 2 for additional requirements. **NOTE:** 3 - 4 units have to debt service and are not eligible for cash-out.

SECOND HOMES

Not eligible.

INVESTMENT PROPERTIES

Not eligible.

RE-OCCUPYING A FORMER INVESTMENT PROPERTY (ML 2011-11)

If the subject property is a former investment property that the borrowers are now re-occupying and the borrowers have fewer than 12 months occupancy seasoning, the maximum LTV/CLTV will be limited to 85% for a rate/term transaction. Streamlines are not allowed.

When 12 months or more seasoning exist, maximum financing for rate/term is allowed.

Note: Seasoning will be calculated based on the loan application date.

RETAINING CURRENT RESIDENCE (ML 2008-25)

For borrowers who are purchasing a new primary residence and will be retaining their current residence, the following requirements apply:

The borrower must be able to qualify with both housing payments and may not use rental income to offset the Mortgage on the home being retained, unless one of the following applies:

- Borrower is relocating or employment is being transferred: New employment must be an unreasonable commute distance from the property being retained.
- Borrowers have at least 25% equity in the property being retained. This is to be determined by an appraisal or 2055.

ELIGIBLE BORROWERS

Eligible borrowers must provide evidence of a valid Social Security number on all FHA loans.
Evidence includes a copy of the borrower(s):

- Social Security card or; **NOTE:** Tax Identification numbers (TINs) are not allowed.
- Paystub, W2 or other government-issued card that includes the borrower's Social Security Number on it.

In addition, FHA requires validation of Social Security numbers for consistency with the borrower's name and date of birth through FHA Connection.

MILITARY PERSONNEL

Military Personnel stationed elsewhere are considered occupant-borrowers and are eligible for maximum financing provided a member of the immediate family will occupy the property as a principal residence.

PERMANENT RESIDENT ALIENS

Allowed under same terms as US Citizen **and** must provide proof of their residency (i.e. green card)

NON-PERMANENT RESIDENT ALIENS - Eligible provided the borrower:

- Occupies the property as a principal residence
- Have a valid Social Security Number
- Are eligible to work in the United States
- Acceptable VISA Type of: E-1, E-2, H-1B, H-2A, H-2B, H-3, L-1, G series and NAFTA workers (TN or TC)
- Not Acceptable VISA types: A-1, A-2, A-3, F-1, F-2, M-1, O-1
- For VISA types not listed – please contact underwriting dept. to research
- Copy of the unexpired passport with I-94 is also required
- If an EAD issued by the USCIS is provided, the borrower is eligible to work in the US and does not need to provide VISA, Passport or I-94 documentation.
- Borrowers with diplomatic immunity are not permitted

NON-OCCUPANT BORROWERS

When there are two or more borrowers, but one or more will not occupy the property as a principal residence, the maximum mortgage is limited to 75% LTV.

However, maximum financing is available for borrowers related by blood, marriage or law (family), or for unrelated individuals that can document evidence of a family-type, longstanding and substantial relationship not arising out of the loan transaction. All borrowers, regardless of occupancy status, must sign the security instrument and mortgage note. If a parent is selling to a child, the parent cannot be the co-borrower with the child on the new mortgage unless the LTV is 75% or less. See the FHA Handbook 4155.1 Section 2 for additional details and requirements.

Loans with LTVs greater than 75% are limited to one-unit properties.

Non-occupant co-borrowers may not be added to a cash-out refinance transaction in order to meet FHA's credit underwriting guidelines for the mortgage. Any co-borrower being added to the Note must be an occupant of the property.

NOTE: Both occupying and non-occupying borrowers and co-borrowers:

- Must take title to the property at settlement
- Are obligated on the mortgage note, and
- Must sign all security instruments

May not be added to meet the qualifying requirements for Cash-Out refinances.

ELIGIBLE BORROWERS (continued)

IDENTITY OF INTEREST, A.K.A. NON-ARM'S LENGTH TRANSACTIONS

Identity-of-Interest transactions on principal residences are restricted to a maximum LTV ratio of 85%.

Maximum financing, above 85% LTV is allowed 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 as a principal residence.
- A current tenant purchasing the property that the tenant has rented for at least six months predating the sales contract. A lease must be submitted verifying occupancy.
  Note: Max financing is allowed between a tenant and a landlord with no identity-of-interest relationship
- Sales by corporations that transfer employees out of an area, purchase the transferred employee's home and then resell to another employee.

RESTRICTED FAMILY MEMBER TRANSACTIONS

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

- 85% of the lesser of the sales price or appraised value, or
- The current maximum mortgage calculation formula (per ML 98-29)

The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months immediately predating the sales contract. A lease and cancelled checks to evidence must be submitted to verify occupancy.

Identity of Interest Additional Restrictions:

- If there is an identity-of-interest between the buyer and the property seller, commission from the sale or listing of the property cannot be used for the down payment.
- An "as is" appraisal of the subject property will be required.
- Not allowed on "Flip" transactions. See the FHA Resale Requirement section for details.

For the purpose of Identity of Interest transactions, the definition of family member includes:

- Child, parent, or grandparent (biological, foster or step),
- Spouse
- Legally adopted child
- Foster child
- Brother/stepbrother or sister/stepsister
- Aunt or uncle

Note: A child is defined as a son/stepson, daughter/stepdaughter. A parent or grandparent includes a step- parent/grandparent or foster parent/grandparent.

INELIGIBLE BORROWERS

- Charitable organizations
- Non-Profit agencies
- State or local government agencies
- Foreign Nationals & borrowers with diplomatic immunity
- Individuals with any of the following visa types: A-1, A-2, A-3,E-2 F-1, F-2, M-1, O-1
- Any individual listed on HUD's Limited Denial of Participation (LDP) list or CAIVRS system.
- Loans in a Trust
- More than 4 borrowers to a transaction
- Borrowers with financing already provided by FHA – unless qualified exemption exists (following page)

QUALIFIED EXCEPTIONS FOR MORE THAN ONE FHA LOAN

To prevent circumvention of the restrictions on FHA-insured mortgages to investors, FHA generally will not insure more than one mortgage for any borrower (transactions in which an existing FHA mortgage is paid off and another FHA mortgage is acquired are acceptable). Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance except under the situations described below. Properties previously acquired as investment properties are not subject to these restrictions.

FHA will not insure a mortgage if FHA concludes that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties, even if the property to be encumbered will be the only one owned using FHA mortgage insurance.

We do not object to homebuyers using FHA mortgage insurance more than once if compatible with the homebuyer's needs and resources as follows:

A. Relocations. If the borrower is relocating and re-establishing residency in another area not within reasonable commuting distance from the current principal residence, the borrower may obtain another mortgage using FHA insured financing and is not required to sell the existing property covered by a FHA-insured mortgage. The relocation need not be employer mandated to qualify for this exception. Further, if the borrower returns to an area where he or she owns a property with an FHA-insured mortgage, it is not required that the borrower re-establish primary residency in that property in order to be eligible for another FHA insured mortgage.

B. Increase in Family Size. The borrower may be permitted to obtain another home with an FHA-insured mortgage if the number of legal dependents increases to the point that the present house no longer meets the family's needs. The borrower must provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's needs. The borrower also must pay down the outstanding FHA mortgage (secondary liens do not need to be paid off or paid down) on the present property to a 75 percent or lower loan-to-value (LTV) ratio. A current residential appraisal must be used to determine LTV compliance. Tax assessments, market analyses by real estate brokers, etc., are not acceptable as proof of LTV compliance.

C. Vacating a Jointly Owned Property. If the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another FHA-insured mortgage. Acceptable situations include instances of divorce, after which the vacating ex-spouse will purchase a new home, or one of the co-borrowers will vacate the existing property.

D. Non-Occupying Co-Borrower. A non-occupying co-borrower on property being purchased with an FHA-insured mortgage as a principal residence by other family members may have a joint interest in that property as well as in a principal residence of their own with a FHA-insured mortgage. (See HUD Handbook 4155.1 for additional information). Under no circumstances may investors use the exceptions described above to circumvent FHA's ban on loans to private investors and acquire rental properties through purportedly purchasing "principal residences".

Considerations in determining the eligibility of a borrower for one of these exceptions are the length of time the previous property was owned by the borrower and the circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage. In all other cases, the purchasing borrower either must pay off the FHA-insured mortgage on the previous residence or terminate ownership of that property before acquiring another FHA-insured mortgage.

ELIGIBLE PROPERTIES

- Attached / Detached SFR's
- Manufactured Housing – Minimum 620 Credit, Min 600 sq. feet – See Manufactured Section for details.
- FHA Approved Condominiums
- Attached / Detached PUD's
- 2 – 4 Units (Note: Cash-Out is only permitted on 1 - 2 unit owner occupied primary residences
- 3 – 4 unit properties are subject to additional "self-sufficiency" test

PROPERTIES LISTED FOR SALE IN THE LAST SIX MONTHS

Refinances of properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing cancelled in the time frames described below:

Rate and Term Refinances: For rate and term refinances of properties recently listed for sale, the listing agreement must be cancelled at least one day prior to the date the application is taken.

Cash Out Refinances: On cash out refinances, listing agreements on the subject property must be cancelled six months prior to the application date or the loan is subject to a maximum 70% LTV/CLTV.

In all circumstances, listing agreements must be cancelled at least one day prior to the loan application. **NOTE:** Cash Out transactions are only eligible when a property has been owned for at least 6 months.

A copy of the cancelled/expired listing must be placed in the file and the appraiser must note the property is not currently listed. Streamlines approved without an appraisal require a signed affidavit by the borrower confirming the subject property has not been listed for sale in the last 6 months

CONDITION OF PROPERTY: FOR ALL REAL ESTATE TRANSFERS (PURCHASE TRANSACTIONS).

All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven cannot pose any health or safety hazard. Properties must be in marketable condition at the time of closing. "Marketable" means the property could be sold in its current condition if necessary. Properties with kitchen/bath that are currently being remodeled, or properties missing flooring (bare, unfinished cement floor) are not considered in marketable condition and are not acceptable. These deficiencies must be completed prior to closing - a signed W-9 form from the contractor is required.

CONDO / PUD

Site Condominiums

Are single-family detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership. Condominium project approval is not required for site condominiums; however, the condominium rider must be included in the FHA case binder submitted for insurance endorsement, and the loan closed under Section 203(b). See **ML 2011-22**. Site condos require use of the 1073 appraisal form.

FHA Approved Condominiums

The project must be listed on FHA's approved list at: https://entp.hud.gov/idapp/html/condlook.cfm.
Must be warranted by the underwriter including but not limited to the following specific certifications:

- No more than 10% of the units are owned by one investor (no more than one unit per investor for projects with ten or fewer units).
- No more than 15% of owners are in arrears for condominium association fees.
- The project has at least a 50% owner-occupancy rate.
- The project has no more than a 50% FHA loan concentration rate (up to 100% if the requirements of ML 2011-22 are met in order for HOC exception to be granted).
- Any additional certification as indicated on the condo project approval in FHA Connection.
- If a project is no longer approved or does not meet Lender Certification criteria, then only a FHA-to-FHA streamline refinance without an appraisal is allowed.

HO-6 (walls-in) insurance coverage must be obtained by the borrower when the master policy does not include interior unit coverage (including 100% replacement of interior improvements and betterment coverage). ML 2011-22. HO-6 minimum coverage is 20% of value.

Unpermitted Room Additions, Garage or Porch Conversions

Single Family Properties with unpermitted room additions are acceptable as described below.

All of the following must apply:

- The appraiser must comment that the addition or conversion was completed in a workmanlike manner and that there is not any impairment to the soundness, structural integrity or livability.
- The room addition must conform to the rest of the property.
- The addition or garage conversion cannot cause the subject property to be in violation of zoning. The appraisal must indicate that the zoning is legal and may not include any comments that the zoning of the property has been jeopardized.
- The square footage of the addition may be included in the appraised value. A garage or porch conversion may be appraised as originally intended or as currently used, depending on the comparable sales. Example: If garage conversions are typical for the area as evidenced by comps, the conversion may be appraised as it is currently used. If garage conversions are not typical for the area the conversion should be appraised as a garage.
- The hazard insurance policy must clearly show that the entire square footage of the subject property, including the unpermitted addition, is included in the policy.

Room Addition Example: If the property was a 3 bedroom property and another bedroom has been added and the property is being appraised as a 4 bedroom property, the hazard insurance policy must clearly insure the total square footage of all living space, including the addition.

Garage Conversion Examples: If the property is being appraised with the garage conversion being valued as a bedroom, the hazard insurance policy must clearly insure the total square footage of all living space. If the garage conversion is being valued as a garage, then the hazard insurance policy need only insure the area as a garage.

NOTE: The hazard insurance policy does not need to indicate that there is an unpermitted addition or garage conversion, but the square footage that we are lending on must be covered by the policy.

NOTES FOR GARAGE CONVERSIONS

Zoning: Local ordinances and/or municipality requirements may obligate a property to have covered garage storage. This is more common in PUDs and gated communities. It is the responsibility of the appraiser to check for this type of requirement; however, it is the underwriter's responsibility to thoroughly review the appraisal to ensure the property's zoning is compliant.

INELIGIBLE SCENARIOS

The following scenarios are not eligible under any circumstance:

- Room additions are not eligible on 2-4 unit properties. All properties must be single family properties and the addition may not result in the property converting to a multi-unit property.
- Additions that result in extra living units, also known as accessory units or granny flats are not eligible.
- Health & Safety concerns

MANUFACTURED HOMES

The following must be documented/met when the property is a manufactured home:

- Manufactured Homes Checklist must be completed by Processor & Underwriter
- Minimum Credit Score = 620
- Must Receive DU approve/Eligible – Manual U/W is not allowed
- Double-wide structures with a minimum of 600 sq. feet.
- Property cannot be in a flood zone.
- No Leaseholds - Must be fee simple. No Parks
- Maximum 10 acres w/comparable comps - Zoned for residential use only.
- At least 2 comps must be manufactured houses.
- All wheels, axels and hitches have been removed.
- Engineers certification of foundation compliance required - (not required on FHA to FHA transactions)

  The foundation requirements for a manufactured home can be found in the Permanent Foundations Guide for Manufactured Housing (PFGMH 4930.3G).
  A certification must be obtained from a licensed professional engineer, or registered architect, who is licensed/registered in the state where the property is being located, attesting to compliance with the PFGMH. This certification must be included in the file.

  A copy of the engineer's foundation certification, showing that the foundation met the requirements published in the PFGMH that were in effect at the time of the certification, is acceptable for future FHA loans on the home, provided there are no alterations and/or observable damage to the foundation. A foundation certification is not necessary when the borrower is refinancing an existing FHA loan to an FHA loan.

  A copy of the PFGMH (Handbook 4930.3G) can be obtained by going to the following website:
  http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/4930.3G

- Manufactured Housing Photo of HUD Tag. Must be built after June 15, 1976.
- No Structural modifications or additions allowed.
- Must be taxed and titled as real property.
- Evidence home is in the original location: Unit must not have been installed or occupied previously at any other site or location. Units may be moved only from the manufacturer's or dealers lot to the site on which the unit will be placed.
- New construction / placement loans - Resale homes & refinances only.
- If home on site < 1 Yr. prior to application date, cash-out not allowed.
- Have a finished grade elevation beneath the home (including the basement) at or above the 100 year flood elevation

INELIGIBLE PROPERTIES

- Commercial Property
- Cooperatives
- Earth/Berm homes
- Geodesic Dome homes
- Geothermal homes
- Historic Properties
- Properties on Indian Leased Land
- Properties with Deed Restrictions
- Leased Land
- Log homes
- Single-Wide Manufactured homes
- Mixed Use
- Properties on Stilts, Posts or Piers
- Non-Warrantable Condos
- Timeshares
- Working Farms, Ranches, Orchards
- Properties rated in "less than average" condition
- Properties with condition rating of C-5 or C-6

MAXIMUM LTV / CLTV

As stated in the FHA Mortgagee Letter ML 2008-40, the maximum loan-to-value varies by transaction type and has been designated below:

PURCHASE
Max LTV / CLTV is 96.50%. See FHA Down Payment Assistance for higher CLTV Options.

RATE & TERM REFINANCE / NON-STREAMLINE
Max LTV / CLTV is 97.75%.

CASH OUT REFINANCE
Max LTV / CLTV is 85%. Cash out transactions must be owner occupied 1 - 2 unit properties.
NOTE: 3 - 4 units are not eligible for cash out.

STREAMLINE TRANSACTIONS

- Streamline (FHA to FHA) without Appraisal: No LTV maximum, however, a maximum insurable mortgage amount applies. If subordinate financing is remaining in place, the maximum CLTV is 100%. Refer to the Streamline section for loan amount calculation and other requirements.

- For loans with eligible Down Payment Assistance, the maximum CLTV is 100%, however, refer to the Down Payment Assistant section for requirements and restrictions.

LOAN AMOUNT

MINIMUM LOAN AMOUNT
$50,000

MAXIMUM LOAN AMOUNT
For most single-family mortgage insurance programs, the maximum insurable amount is the lesser of:

- The maximum loan limit for the area, usually a county or metropolitan statistical area (MSA),

  OR

- The applicable LTV limit, determined by a fixed percentage of the lesser of the sales price or the appraised value.

The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.

The insurable balance may only increase above the sum of the outstanding principal balance and the new UFMIP by using a credit qualify (streamline or Rate/Term) refinance with an appraisal.

GEOGRAPHIC RESTRICTIONS

Transactions only available by licensed branches with licensed MLO's of iServe.

Maryland: All loans must be documented with standard 2 year income documentation.

Texas: Cash out refinance transactions are not eligible in Texas. 50(a)(6) loans.

US Territories: Not Allowed - (Puerto Rico, American Samoa, Guam, etc..)

TRANSACTION TYPES

PURCHASE

Loan amount is based on the *lesser* of the sales price or current appraised value.

RATE & TERM REFINANCE

All proceeds are used to pay existing liens and costs associated with the transaction. Cash back to the borrower is not allowed with the exception of a maximum of a $500 minor adjustments at closing.

This section contains the guidelines for calculating the maximum loan amount for a regular refinance transaction, with no cash-out.

The maximum LTV/CLTV on rate and term refinance (no cash out) for new or existing subordinate liens is 97.75% and is subject to meeting all of the following conditions:

- Second liens that have been permanently modified may use the modified total lien amount to calculate the CLTV ratio provided and executed modification agreement is supplied.
- The second lien CLTV requirements may be more restrictive.
- Regardless of whether the subordinate financing is existing or new, the combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county limit.

The maximum mortgage amount is the lower of the LTV or the existing debt calculation described below, and may never exceed the FHA loan limit except by the amount of any new up-front MIP.
Equity Line of Credit: If any portion of the funds of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in a no cash-out refinance.

EXISTING DEBT

Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months old, borrower-paid closing costs, prepaid expenses, borrower paid repairs required by the appraisal, discount points, and then subtract any refund of UFMIP.

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). The amount also may include any prepayment penalties assessed on a conventional mortgage.

The amount of the existing first mortgage may not include delinquent interest.

Prepaid expense may include the per-diem interest to the end of the month on the new loan, hazard insurance premium deposits, mortgage insurance premium and any real estate tax deposits needed to establish the escrow account.

If the new loan is used to refinance an existing mortgage to buy out an ex-spouses or other co-mortgagor's equity, the specified equity to be paid is considered property-related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree, settlement agreement, or other equity agreement must be provided to document the equity awarded to the ex-spouse or co-mortgagor.

NON FHA TO FHA

If the property was acquired less than one year before the loan application and is not already FHA-insured, the original sales price of the property (rather than the appraised value) must be used in determining the maximum mortgage amount. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price when calculating the mortgage amount.

STREAMLINE REFINANCE REQUIRMENTS

The FHA Streamline refinance program is designed to lower the monthly principal and interest payments on a current FHA-insured mortgage. All streamline refinances are subject to the following:

- All transactions must be owner occupied.
- 1 Unit attached or detached properties including condos & PUDs.
- A minimum credit score of 620 is required for all borrowers
- Streamlines require a signed affidavit by the borrower confirming the subject property has not been listed for sale in the last 6 months.
- **Credit:** An in-file credit report is required. The mortgage being refinanced may not have any history of 30 day lates or greater in the last 12 months.
- Cash back to the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed $500. (No cash back allowed in Texas)
- Allowed with or without an appraisal.
- Must result in an immediate payment reduction to the borrower.
- On the date of FHA case number assignment: (ML 2011-11)
  - at least six payments must have been made on the FHA mortgage that is being refinanced, and,
  - At least six full months must have passed since the first payment due date, and,
  - At least 210 days have passed from the closing date of the mortgage being refinanced.
- Must result in an immediate payment reduction to the borrower.
- Loans closed prior to July 1, 1991, with or without an appraisal are exempt from annual MIP; however, UFMIP is required. Refer to the UFMIP section for details. Also, loan file must include documentation that the mortgage being refinanced was closed on or before July 1, 1991.
- Transactions that include a reduction in the mortgage term must be underwritten as a rate/term refinance, not as a Streamline refinance.
- Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the underwriter must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.
- **Assets:** If funds are needed to close, the underwriter must verify and document the required funds.
- For conforming balance streamlines, if subordinate financing is remaining in place, the maximum CLTV is 100%. See Maximum CLTV on the following page for the LTV/CLTV calculation depending on whether or not an appraisal is provided.
- Non-traditional credit is not allowed on streamline transactions.
- The underwriter must not use TOTAL Scorecard on streamline refinance transactions.
- A Full 1003 must be completed including employment but not including income information.
- A 4506-T is not required unless these sources of "other" income is used:
  If the borrower indicates on their loan application that their income is from an "other" income source, full documentation supporting that source of income is required per FHA manual underwriting guidelines. **4506-T transcripts will be reviewed prior-to-doc if any of the following "Other" income is used:**
  - Alimony, Separate Maintenance, Child Support
  - Annuity, Interest/Dividend Income
  - IRA, Keogh, Pension, Retirement
  - Rental Income
  - Social Security, Retirement Survivor's, Disability Income
  - Trust Income
  - VA Benefits

[CONTINUED ON NEXT PAGE]

- Borrowers with "other" income are the only exception as "other" income must be fully documented and the borrowers must meet FHA requirements for qualifying DTI. To ensure the borrower will be able to repay their debt, ratios must be calculated at 31/43% from the source of income documentation provided. Ratios greater than 31/43% may be allowed up to 40/50% with any of the following eligible compensating factors: 3 months or greater reserves, equity in the subject property or documented but unused household income.
- Debt ratios are not calculated because there is no income listed on the loan application
- The Net Tangible Benefit is required – See ML 2011-11

The underwriter must determine there is a net tangible benefit as a result of the Streamline refinance transaction. Net tangible benefit is defined as follows:

- **Fixed to Fixed:** A minimum 5% reduction to the principal and interest (P&I) of the mortgage payment plus the annual MIP.

  OR

- **ARM to Fixed:** Refinancing an Adjustable Rate Mortgage (ARM) to a fixed mortgage, refer to the table below:

FROM LOAN TYPE	NET TANGIBLE BENEFIT NEEDED
Fixed Rate	Reduction of at least 5% of principal & interest (P&I) and mortgage insurance premium (MIP)
One-Year ARM	New interest rate no greater than 2% points above the current interest rate of the ARM
Fixed-Period ARM (During the Fixed Period)	Reduction of at least 5% of P&I and MIP
Fixed-Period ARM (During Adjustable Period)	New interest rate no greater than 2% points above the current interest rate of the Fixed-Period ARM

- **Payment History:** At the time of loan application, the borrower must exhibit an acceptable payment history as described below:
- **For mortgages with less than a 12 month payment history:** The borrower must have made all mortgage payment within the month due. No 30 day (or greater) late payments allowed on any mortgage in the last 12 months.
- **For mortgages with a 12 month payment history or greater, the borrower must have:** Had no 30 day late payments (or greater) in the last 12 months.
- **UFMIP Requirements:** Refer to the UFMIP section of these guidelines

The maximum insurable mortgage cannot exceed:

1) The outstanding principal balance[1] minus the applicable refund of the UFMIP.

[1]The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.

PLUS

2) The new UFMIP that will be charged on the refinance.
(Discount points may not be included in the new mortgage)

NOTE: Properties that have been listed for sale in the last 6 months are not eligible without an appraisal. The borrower must sign an affidavit stating that the subject property has not been listed for sale in the last 6 months.

CASH OUT REFINANCE

A cash-out is a first lien in which the loan proceeds may include the funds required to pay off any existing liens, related prepaids, closing costs, and the disbursement of cash to the borrower.

The maximum LTV/CLTV on cash-out refinance transactions for new or existing subordinate liens is 85% Subject to meeting all of the following eligibility conditions:

- Regardless of whether the subordinate financing is existing or new, the combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county limits.
- The second line CLTV requirements may be more restrictive.
- Second lines that have been permanently modified may use the modified total lien amount to calculate the CLTV ratios provided an executed modification agreement is supplied.
- If the property (1 - 4 units) is an owner-occupied principal residences and owned for:
  - One year or more receding the date of the loan application: 85% LTV/CLTV based on amount of the appraised value
  - Less than one year preceding the loan application: 85% LTV/CLTV based on the lesser of the property's appraised value or the original sales price.
- Co-borrowers or co-signers added to the Note or currently on the Note must occupy the property securing the new FHA-insured mortgage. Non-occupant co-borrowers or co-signers may not be added to the Note to meet FHA credit underwriting guidelines.
- If said property is encumbered by a mortgage, the borrower must have made all of his/her mortgage payments within the month due for the previous 12 months. No payment may have been 30 days late or greater and mortgage must be current at application and closing.

PROPERTIES OWNED FREE AND CLEAR

Properties owned free and clear must be refinanced as a cash-out refinance transaction.

INELIGIBLE TRANSACTIONS

Loans with the following characteristics are not eligible:

A restructured or short payoff loan, a.k.a., short refinance, is a mortgage in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.

Restructured loans result in:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage, or
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness, or
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage, or
- Conversion of any portion of the original mortgage debt from secured to unsecured.

Note: Additional documentation to identify a restructured or short payoff loan may be required such as, but not limited to, HUD-1s, payoff demands and/or evidence of source of funds of principal balance pay-downs to substantiate principal reduction transactions.

UNDERWRITING AND CREDIT

All loans, excluding streamline refinances, must be decisioned through FHA TOTAL via DU or LP.
Manual U/W is only offered on Streamlines and as required by ML 2013-05 for credit scores below 620 and DTI > 43%.

STANDARD FHA:

Underwriting Method	Transaction Type	Acceptable AUS Results	Minimum Credit Score
DU or LP	Purchase & R/T & Cash-Out	Approve/Eligible or Accept	580*
Manual*	Streamline Refinance	N/A	620

NOTE: Scenarios with Reserve Requirements:

- Purchase transactions with credit scores 600 - 620 require 2 months PITI after closing.
- All transactions with credit scores 580 - 599 require 4 months PITI after closing.
- 3 - 4 unit properties: 4 months PITI after closing are required for purchase and refinance transactions. **Gifts are not an acceptable source for 3 – 4 units, must be borrower's own funds.**

* Beginning with case numbers assigned on or after 4/1/2013, manual underwriting will be required on all loans run through Total Scorecard/DU/LP when the borrower's credit score is less than 620 and the DTI is greater than 43%, regardless of Total Scorecard recommendation. Complete details are addressed in ML 2013-05. Manufactured homes require minimum 620 score.

AGE OF DOCUMENTATION

The maximum age for credit documents is 120 days. Document age is measured from the date of the doc to the date the note was executed. Credit docs include all income, employment, asset, and credit reports.

BANKRUPTCY

CHAPTER 7

- Liquidations are allowed with 24 months since the discharge date and when good credit has been reestablished.
- Bankruptcies less than 24 months (but not less than 12 months) may be allowed provided the reason for the bankruptcy was due to extenuating circumstances, the borrower has exhibited an ability to manage financial affairs, and the reason for the bankruptcy is not likely to recur.
- A borrower whose bankruptcy has been discharged less than 12 months is not eligible.

CHAPTER 13

- Bankruptcies are allowed after 12 months of the payout period provided performance has been satisfactory and borrower receives court approval to enter into the mortgage transaction.
- If it has been more than 24 months since the discharge, and the AUS risk decision received is an "Accept," the loan does not need manual downgrading and bankruptcy documentation is not required.

Note: Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within 24 months of loan application date require compliance with the instructions regarding bankruptcies described in the HUD Handbook

HOUSING PAYMENT HISTORY

0 x 30 in the last 12 months. This applies to all transactions including streamlines.

CREDIT SCORES

The minimum qualifying credit score may not be lower than outlined above, regardless of AUS approval.

A tri-merge bureau credit report is required on all loans; the lowest qualifying score of all applicants is used to qualify. Each borrower must have at least two credit scores.

The qualifying score is the lower of 2 or the middle of 3 scores and must be reviewed for each borrower.

No Credit Score: Borrowers without a minimum qualifying credit score are ineligible.

Non-traditional Credit: Non-traditional trade lines may be considered in addition to traditional credit; however, **it is not acceptable to base a credit decision solely off of non-traditional trade lines**. Non- traditional tradelines can only be used to build on to traditional credit.

Example 1: A credit report has a qualifying credit score of 640 but the borrower has no traditional credit. This credit score is not valid since the borrower has no traditional credit. The borrower is not eligible.

***Example 2*:** A credit report has a qualifying credit score of 640, however, the borrower's profile is less than 12 months or the borrower does not have at least 3 trades. It is acceptable to provide non-traditional trade lines to support a total of 3 trade lines with a 12 month history each.

NOTE: Non-traditional credit is not allowed on Streamlines

Credit Profile: If the borrower's credit profile consists of only collection accounts, judgments or other adverse credit, the borrower is not eligible. This applies regardless of credit score or AUS approval.

Valid Credit Score: Regardless of AUS approval, for a credit score to be considered valid, the score must be generated based on sufficient credit depth and there must be at least two scores per borrower. Sufficient credit depth can vary by borrower, underwriter to decide the validity of the score. Here are some examples of acceptable credit depth:

1. The borrower has (3) trade lines that have been evaluated for at least 12 months. These trade lines do not need to be currently active but require some activity in the last 24 months.

2. The borrower has (2) trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.

3. The borrower has a credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months. Borrower's mortgage/rental payment history with no late payments in the last 24 months.

NON-TRADITIONAL CREDIT - GUIDANCE

For borrowers with less than 3 trade lines with a 12 month history each, non-traditional credit may be used in addition to traditional credit except for streamline transactions.
There are two groups of non-traditional credit outlined below.

Type 1 references should be exhausted prior to considering Type 2 for eligibility purposes, as those are considered more indicative of a borrower's future housing payment performance.

***TYPE 1* :** Rental housing payments (subject to independent verification if the borrower is a renter), utility company reference (if not included in the rental housing payment), including gas, electricity, water, land-line home telephone service, cable TV. If the borrower is renting from a family member (or interested party), request independent documents to prove regularity of payments, such as cancelled checks.

TYPE 2: Insurance coverage, i.e., medical, auto, life, renter's insurance (not payroll deducted); payment to child care providers – made to a business providing such services; school tuition; retail stores – department, furniture, appliance stores, specialty stores; rent-to-own – i.e., furniture, appliances; payment of medical bills that are not covered by insurance; Internet/cell phone services; a documented 12 month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in an increasing balance to the account; automobile leases, or a personal loan from an individual with repayment terms in writing supported by cancelled checks to document the payments.

FORECLOSURE

A borrower whose previous residence or other real property was foreclosed on, sold through a short sale, or has been given a deed-In-lieu of foreclosure within the previous three years is not eligible.
If the foreclosure was greater than three years prior to the date of the application, and the risk decision received is an "Accept" or "Approve," the loan does not need manual downgrading and foreclosure documentation is not required.
Pre-foreclosure or short sales including short refinances require a minimum 3 year seasoning.

CONSUMER CREDIT COUNSELING

Participation in a consumer credit counseling payment program does not disqualify a borrower from obtaining an FHA-insured mortgage provided the underwriter documents that one year of the pay-out period has elapsed under the plan and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive written permission from the counseling agency to enter into the mortgage transaction.

LATE PAYMENTS, COLLECTION ACCOUNTS AND DELINQUENT CREDIT

These adverse items include: Collections, tax liens, charge-off accounts and judgments

If the risk decision received was an "Accept" or "Approve," and the items above appeared on the credit report and was evaluated by the AUS further documentation is not required.

JUDGMENTS

Judgments must be paid off at or prior to closing, regardless of credit score or AUS approval.

COLLECTIONS / CHARGE-OFF ACCOUNTS

Aggregate balance of $1,000 or greater must be paid in full. (This does not include medical collection accounts) Funds required to pay off the accounts must be documented in the loan file. This does not apply to Streamline Refinance transactions.

iServe underwriting may consider exceptions to this policy if all of the following apply:
Adverse credit exists due to extenuating circumstances. The loan must be documented with the circumstance that caused the adverse credit and the borrower must be able to demonstrate that the issue and/or cause is not ongoing and has been resolved, **AND,** A sufficient credit explanation letter by the borrower(s).

DISPUTED ACCOUNTS

Only disputed accounts under these circumstances are allowed to remain as such on the credit report:

1. The disputed account has a zero balance, or,
2. The disputed account is marked as "paid in full," or "resolved," or,
3. The disputed account is both Less than $500 and more than 24 months old.

COMMUNITY PROPERTY STATES

States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington & Wisconsin

- Debts of a non-purchasing spouse <u>must be counted</u> in the borrower's qualifying ratios.
- The non-purchasing spouse's credit performance is not a consideration.

INCOME AND EMPLOYMENT

For eligible income and employment types and details on how to calculate the borrower's income, refer to the HUD Handbook: http://www.hud.gov/offices/adm/hudclips/handbooks/hsgh/4155.1/41551HSGH.pdf

A verbal VOE covering the most recent two year period is required on all loans within 10 days of the closing.

Self Employed Borrowers – (ML 2012-03)

A P&L and Balance Sheet are required if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal-year end tax return was filed by the borrower – No Exceptions.

Additionally, if income used to qualify the borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.

IRS FORM 4506-T

Required on all transactions except Non-Credit Qualifying Streamlines. All loans submitted for underwriting must include processed tax transcripts:

One Year IRS 1040 Transcripts when AUS feedback requires the following documentation:

- YTD Paystub
- TYD Paystub and one W-2
- Personal returns (1040s) for one year

Two Years IRS 1040 Transcripts when the AUS feedback requires the following documentation:

- YTD Paystub and Two W-2s
- Personal returns (1040s) for two years

NOTE: Two Years 1040 Transcripts are required on all loans when the borrower is employed by a relative or family business'

Exception: The 4506-T is not required under the Non-Credit Qualifying Streamline refinance program. Borrowers with "other" income, are required to execute the 4506-T which will be processed

QUALIFYING RATIOS

Per AUS. Must have AUS approval – manual u/w not allowed except for streamlines.
Manual U/W is required per ML 2013-5 when credit is below 620 and DTI > 43%.

QUALIFYING THE BORROWER

Installment Debt: Payments on all installment debts with 10 months or more of remaining payments must be included in the DTI. Also see Debts with less than 10 months below.

Auto Lease: The payment must be included in the DTI regardless of the remaining number of payments.

Alimony, Child Support or Maintenance Payments: 10 or more months remaining, it must be included.

Revolving Debt: If the account shown on the credit report has an outstanding balance and is not reporting a minimum monthly payment, the monthly payment for qualifying purposes must be calculated at the greater of 5% of the balance or $10. If the account is closed, no monthly payment amount is required.

Debts with less than 10 months: Any debt with less ten months remaining must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing; this is especially true is the borrower will have limited or no cash assets after closing.

Projected Obligations: If a debt payment, such as a student loan, is scheduled to begin within 12 months of closing, the monthly payment obligation must be included in the underwriting analysis, unless the borrower provides written evidence that the debt will be deferred to a period outside this timeframe.

401(k) Loans: Repayment of debt secured by 401(k) funds is not included in the qualifying DTI.

Paying off Debt: Installment debt may be paid off to qualify the borrower. Revolving debt may be paid off; However a minimum monthly payment of $10 must be included in the debt ratio unless the account has been closed. If proof the account is closed, no minimum monthly payment is required.

Co-signed Obligations: See the HUD Handbook 4155.1, section 4 Liabilities.

Payment Shock: Underwriter should use discretion and consider this as part of the credit qualification analysis as payment shock may suggest inability to afford the new mortgage debt without significant compensating factors present.

MINIMUM CASH INVESTMENT

The borrower must make a minimum cash investment of 3.5% of the lesser of the appraised or sales value. This amount is in addition to any borrower closing costs.

Refer to the HUD Handbook for more information:
http://www.hud.gov/offices/adm/hudclips/handbooks/hsgh/4155.1/41551HSGH.pdf

CASH RESERVES

Cash reserves are not a requirement for FHA loans except in the scenarios described below. Generally cash reserves are used as a compensating factor (minimum of 3 - 4 months PITI). Cash proceeds from a refinance or equity in another property are not acceptable sources for of cash reserves.

Scenarios with Reserve Requirements:

- Purchase transactions with credit scores 600 - 640 require 2 months PITI after closing.
- All transactions with credit scores 580 - 599 require 4 months PITI after closing.
- 3 - 4 unit properties: 4 months PITI after closing are required for purchase and refinance transactions. **Gifts are not an acceptable source for 3 – 4 units, must be borrower funds.**

GIFT FUNDS

Detailed procedures for verifying the transfer of gift funds from private individual donors to homebuyers, as well as the required contents of the gift letter, are outlined below:

Acceptable Gift Funds - 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 (see below)
- A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families as first-time homebuyers

A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price. Donors may borrow gift funds from an acceptable source, not from a party to the loan transaction including the mortgage lender.

Charitable Organizations / Non-profit Agencies / Down Payment Assistant programs (DPA)

FHA does not approve down payment assistance programs in the form of gifts administered by charitable organizations (non-profits). In addition, FHA does not allow non-profit entities to provide gifts to homebuyers for the purpose of paying off installment loans, credit cards, collections, judgments and similar debts.

If a charitable organization loses or gives up its federal tax-exempt status, FHA will recognize the gift provided the gift is made to the homebuyer and properly documented and the homebuyer has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

Gift funds from a nonprofit agency must be sent directly to the closing agent from the Agency. The escrow/funding agent must provide proof that the funds were received via a cashier's check or a wire transfer from the nonprofit agency. This must be a condition of loan closing.

Seller-Funded Nonprofit Agencies

Not allowed. Examples include: Nehemiah and Ameridream.

Requirement for Federal Tax Identification

If the nonprofit agency is providing down payment assistance in the form of a gift, enter the Federal Tax identification number of the nonprofit agency into the CHUMS system in the field designated for a charitable organization's tax identification number. Failure to do this will result in the loan not being insured by FHA.

Unacceptable Gift Funds

Except for eligible donors described above, the donor of the gift may not be a person or entity with an interest in the sale of the property, such as the seller, seller funded down payment assistance, real estate agent or broker, builder, or any entity associated with them. Cash-on-hand is not an acceptable source of donor gift funds.

Gift Transfer Documentation

Gift Funds already in the Homebuyer's Account

To document the transfer of the funds from the donor to the homebuyer, obtain the following:

- A copy of the canceled check or withdrawal document showing the withdrawal is from the donor's personal account, **and**
- The homebuyer's deposit slip or bank statement showing the deposit.

Funds Provided at Closing

If the transfer of the gift funds is by certified check made on the donor's account, provide:

- Bank statement showing the withdrawal from the donor's personal account, and
- Copy of the certified check.

If the donor purchased a cashier's check, money order, official check, or any other type of bank check as a means of transferring the gift funds:

- The donor must provide a withdrawal document, **OR**
- Canceled check for the amount of the gift showing the funds came from the donor's personal account.

If the donor borrowed the gift funds and cannot provide the documentation from his/her bank or other savings account, the donor must provide evidence that those funds were borrowed from an acceptable source, not from a party to the loan transaction or the mortgage lender.

Gift Letter Requirements - The gift letter must:

- Specify the dollar amount given.
- Be signed by the donor and the borrower.
- State that no repayment is required.
- Show the donor's name, address, telephone number, and relationship to the borrower.

Additionally, the gift letter must also contain language asserting that the funds given to the homebuyer were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with them.

INTERESTED PARTY CONTRIBUTIONS

Contributions from the property seller, or other interested third parties such as real estate agents, builders, developers, etc, or a combination of parties, where the contributions exceed 6% of the sales price or exceed the actual cost of prepaid expenses, discount points and other financing concessions will be treated as inducements to purchase, thereby reducing the amount of the mortgage.

The 6% limitation also includes property seller payment for mortgage payment protection insurance, and payment of UFMIP.

Fees not included in the contribution limitation: Fees typically paid by the property seller under local or state law, local custom (such as real estate commissions, charges for pest inspections, fees paid for trustees to release a deed of trust, etc.) are not considered contributions that must be counted in the 6% limit. The dollar limit for property seller contributions is calculated using Attachment A on the HUD-92900-PUR/HUD-92900WS.

Note: Closing costs normally paid by the borrower are considered contributions if paid by the property seller. The property seller may not increase the sales price on a finalized purchase contract to cover closing costs. The LTV/CLTV must be recalculated based on the original sales price if there is evidence in the loan file that the sales price was increased to include the borrower's closing costs.

REAL ESTATE COMMISSIONS

Any aggregate real estate commission, including a "bonus" greater than 8% is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price.

The appraiser is required to disclose whether the purchase contract was reviewed and, if so, comment on any excessive sales commission. Any excessive sales commission should be taken into consideration when arriving at the final value.

TERMITE, WELL AND SEPTIC INSPECTIONS

- If evidence exists that a termite/pest inspection was ordered, requested, required and/or completed, a copy of the termite/pest inspection is required to be included in the file on any FHA loan, even if the borrower elected to waive a termite/pest inspection.
- Properties ***under one year old*** require mandatory inspection, treatment and testing, even if previously occupied.
- For existing properties ***over one year old,*** inspection and/or testing is only required if:
  - The appraisal indicates there may be a problem or that problems are common in the area.
  - Mandated by the state or local jurisdiction
  - Required by the sales contract.
  - A water purification system is present. If the water supply does not test safe without the purification system, then the requirements in ML 92-18 must be met.
  - The property has been vacant for more than 30 days (applies to septic systems only).
  - The utilities (water, gas, electric) are NOT on at the time of appraisal. Appraiser to condition for further inspection to determine if the utilities are in proper working order.
- Wells and Other Water Systems: See the FHA Frequently Asked Questions Site.
- Septic Systems: See the FHA Frequently Asked Questions Site.

NUMBER OF LOANS PER BORROWER

A borrower can have no more than one FHA loan at a time, except under situations described in the 4155.1 Section 1-2A-D.

NUMBER OF PROPERTIES PER BORROWER

The maximum number of residential properties that can be financed is limited to 4, including the subject property. This includes joint or total ownership and is cumulative across all borrowers on the loan.

APPRAISALS

All appraisals for FHA loans must be completed by a HUD-approved appraiser and use the following forms:

- Statement of Limiting Conditions
- Appraiser's Certification
- Based on the property type, the following appraisal report must be used:

PROPERTY TYPE	FORM NAME / NUMBER
Single-Family Residence, including PUD	Uniform Residential Appraisal Form (#1004 / # 70)
Condominiums (including Site Condos)	Individual Condo Appraisal Report (#1073 / # 465)
Two-Four Units	Small Residential Income Property Appraisal Report (# 1025 / # 72)
All 1-4 unit properties	Appraisal Updated and /or Completion Report 1004D/442

Appraiser Independence

All appraisals must be ordered through the iServe Appraisal Department.
To ensure appraiser independence, underwriters are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker, real estate agent or any staff member who is compensated on a commission basis tied to the successful completion of a loan. Underwriters must assure that the FHA Connection reflects the correct name of the appraiser.

Communication with Appraisers

FHA prohibits any member of the loan production staff or any person who is compensated on a commission basis from having substantive communications with an appraiser related to or having an impact on valuation, including ordering or managing an appraisal assignment.

Declining Markets Appraisal Reporting Requirements

HUD requires an appraiser to provide summary comments and support for all conclusions relating to the trend of the current market. In a declining market, an appraiser must:

- Include a minimum of 2 active listing or pending sales on the appraisal form (in addition to the three settled sales).
- Include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal; otherwise, a detailed explanation is required why the sales could not be provided.
- Ensure active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood.
- Adjust active listings to reflect list to sale price ratios for the market.
- Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
- Include the original list price, any revised list prices, and total days on the market.
- Reconcile the adjusted values of active listing or pending sales with the adjusted values of the settled sales provided.
- Include an absorption rate analysis.

For additional details, refer to Mortgagee Letter ML 2009-09 posted on the HUD website.

Condition Rating (UAD)

Properties with condition rating of C-5 or C-6 are not allowed.

Age of Appraisal

The validity period for all appraisals on existing and proposed construction is 120 days. (ML 2009-30)
If an extension is required on a purchase transaction, the sales contract must have been executed prior to the expiration date of the appraisal.
If an extension is required on a refinance transaction, the underwriter may extend the appraisal for an additional 30 days as long as the appraisal is not expired at the time the underwriter issues the approval. The underwriter should note the extension using HUD form 92900-LT or HUD form 92800.5B.

Appraisal Update Report

Appraisal Update Report (ML 2010-13), Fannie Mae Form 1004D/Freddie Mac Form 442, Part A, Appraisal Update Report may be used to extend the validity period for the original appraisal report, in lieu of ordering a new appraisal report, when certain conditions are met.

Guidelines for the use of the Appraisal Update Report are as follows:

- The Update Report may not be used if the property value has declined.
- The Appraisal Update Report may only be used one time to extend the validity period of the original appraisal report.
- The Appraisal Update Report must be ordered and performed prior to the expiration date of the original appraisal report.
- The FHA appraiser who performed the original appraisal must perform the appraisal update and the appraiser must be in good standing with FHA at the time the Appraisal Update is performed.
- The appraiser must use the Market Conditions Addendum, Fannie Mae 1004MC, to update their research and analysis of the current market data to validate the subject property has not declined in value. The appraiser must certify there has been no decline in value on the Update Report form.
- The appraiser must be able to observe from the street or a public way the subject property's improvements that contribute value to the property.
- An exterior inspection of the property must not indicate any significant changes or deficiencies that were not observed at the time of the original appraisal report's effective date.
- If the original appraisal report was transferred to a new lender, the appraiser must attach the original appraisal report to the Appraisal Update Report instead of referencing the report. This is a USPAP requirement.
- The appraiser must provide a photo of the subject property from the street and photos from as many angles visible from a public way.

Portability of Appraisal from One Lender to Another

When a borrower has switched lenders, the first lender must transfer the case to the second lender, including the appraisal report. The second lender may order a new appraisal under the following limited circumstances:

- The DE underwriter for the second lender found material defects with the original appraisal.
- The original appraiser is on the second lender's exclusionary list.
- The first lender failed to provide a copy of the appraisal in a timely manner, which causes potential harm to the borrower for events outside of the borrower's control. The events include rate lock expiration, purchase contract deadlines and foreclosure proceedings.
- When a new appraisal is requested, the lender name must be updated.

UFMIP PREMIUMS

Effective for loans with case numbers assigned on and after April 1st, 2013:

Base loan amounts less than or equal to $625,500 the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 95%	1.75% / 1.35%	1.75% / 1.35%	0.01% / 0.55%
< = 95%	1.75% / 1.30%	1.75% / 1.30%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 90%	1.75% / 0.70%	1.75% / 0.70%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.45%	1.75% / 0.45%	
<=78%*	1.75% / 0.00%*	1.75% / 0.00%*	

Base loan amounts greater than $625,500 the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 95%	1.75% / 1.55%	1.75% / 1.55%	0.01% / 0.55%
< = 95%	1.75% / 1.50%	1.75% / 1.50%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 90%	1.75% / 0.95%	1.75% / 0.95%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.70%	1.75% / 0.70%	
<=78%*	1.75% / 0.45%*	1.75% / 0.45%*	

Refer to Annual and Up-Front Mortgage Insurance Premium – Changes (ML 2013-04) for additional details

* **NOTE**: On June 3, 2013 the MIP factor for <=15 year term @ <=78% changed from 0% to .45%

Effective for loans with case numbers assigned on and after June 11, 2012 to March 31st, 2013:

Base loan amounts less than or equal to $625,500 the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 95%	1.75% / 1.25%	1.75% / 1.25%	0.01% / 0.55%
< = 95%	1.75% / 1.20%	1.75% / 1.20%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 90%	1.75% / 0.60%	1.75% / 0.60%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.35%	1.75% / 0.35%	
<=78%	1.75% / 0.00%	1.75% / 0.00%	

For base loan amounts greater than $625,500 the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 95%	1.75% / 1.50%	1.75% / 1.50%	0.01% / 0.55%
< = 95%	1.75% / 1.45%	1.75% / 1.45%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed before 6/1/2009
> 90%	1.75% / 0.85%	1.75% / 0.85%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.60%	1.75% / 0.60%	
<=78%	1.75% / 0.00%	1.75% / 0.00%	

Refer to Annual and Up-Front Mortgage Insurance Premium – Changes (ML 2012-04) for additional details

UFMIP for Refinance Transactions

The amount of unearned premium refunded, if applicable, depends on when the mortgage was closed.

The following requirements are applicable to Regular and Streamline Refinances (except those Streamline Refinances of mortgages closed before July 1, 1991):

- Mortgages closed after July 1, 1994, but before January 1, 2001: The seven-year unearned premium refund schedule shown in Mortgagee Letter 94-1 remains in effect.
- Mortgages closed on or after January 1, 2001, but endorsed before December 8, 2004, that are subsequently refinanced: The five-year refund schedule shown in Mortgagee Letter ML 00-46 applies.
- Mortgages endorsed on or after December 8, 2004, that are subsequently refinanced: The mortgage will not be eligible for a refund of the UFMIP except when the borrower refinances to another mortgage to be insured by FHA. The three-year refund schedule shown in Mortgagee Letter ML 05-03 applies.
- Streamline Refinances of Mortgages Closed before July 1, 1991: These loans remain exempt from the annual premium and are charged an upfront premium of 1.50%.

Cancellation of MIP

Case numbers prior to June 3rd, 2013

The annual MIP may be canceled by HUD once the unpaid principal balance reaches 78% of the lower of the initial sales price or the appraised value based on the initial amortization schedule.
FHA's calculation of the 78% threshold is based on the:

- Loan amount, excluding the UFMIP.
- Initial sales price or original appraised value, whichever is less.
- MIP cancellation of a Streamline Refinance without an appraisal is determined based on the "original appraised value" provided by HUD.

Note: Regardless of the computed loan-to-value ratio, all but 15-year term mortgage will have annual premiums for the greater of five years or until the amortized loan-to-value reaches 78%. ML 00-46.

Case numbers on or after June 3rd, 2013 : See ML 2013-04

- For all mortgages regardless of their amortization terms, any mortgage involving an original principal obligation (excluding financed Up-Front MIP (UFMIP)) less than or equal to 90 percent LTV, the annual MIP will be assessed until the end of the mortgage term or for the first 11 years of the mortgage term, whichever occurs first.

- For any mortgage involving an original principal obligation (excluding financed UFMIP) with an LTV greater than 90 percent, FHA will assess the annual MIP until the end of the mortgage term or for the first 30 years of the term, whichever occurs first.

Note: FHA calculates LTV as a percentage by dividing the loan amount (prior to the financing of any UFMIP) by the lesser of the purchase price (if applicable) or the appraised value of the home. For streamline refinances without appraisals, FHA uses the original appraised value of the property to calculate the LTV

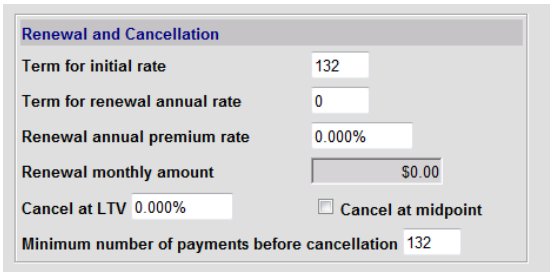
The table below shows the previous and the new duration of annual MIP by amortization term and LTV ratio at origination:

TERM	LTV(%)	PREVIOUS – Before 6/3/2013	NEW >= 6/3/2013
≤ 15 yrs	≤ 78	No annual MIP	11 years / 132 pmts
≤ 15 yrs	> 78 – 90.00	Cancelled at 78% LTV	11 years / 132 pmts
≤ 15 yrs	> 90.00	Cancelled at 78% LTV	Loan Term
> 15 yrs	≤ 78	5 years	11 years / 132 pmts
> 15 yrs	> 78 – 90.00	Cancelled at 78% LTV & 5 years	11 years / 132 pmts
> 15 yrs	> 90.00	Cancelled at 78% LTV & 5 years	Loan Term

*** Make sure the correct initial & cancellation term is put in LQB- "Loan info"/"Upfront MIP/FF" – Fields "Term for initial rate" & "Minimum number of payments before cancellation" – examples on following page.

EXAMPLE: MIP for 11 Years = 132 pmts

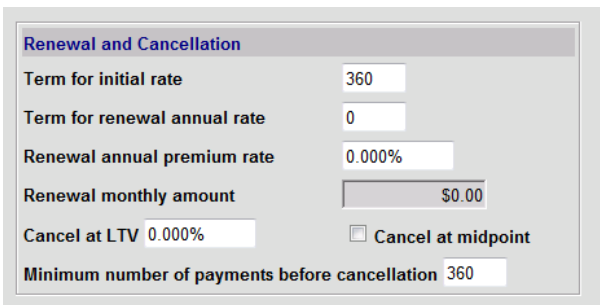
LQB – "Loan Info" / "Upfront MIP/FF" – Fields "Term for initial rate" & "Minimum number of payments before cancellation" - Example, if 11 Years / 132 pmts:



Renewal and Cancellation

Term for initial rate: 132
Term for renewal annual rate: 0
Renewal annual premium rate: 0.000%
Renewal monthly amount: $0.00
Cancel at LTV: 0.000% ☐ Cancel at midpoint
Minimum number of payments before cancellation: 132

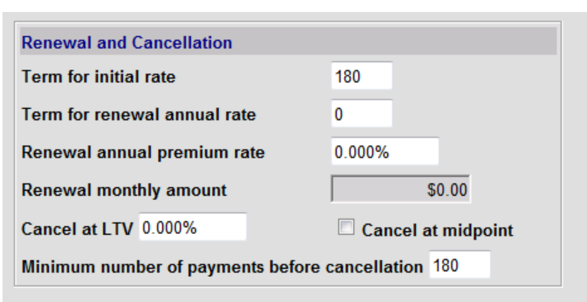
Example: MIP for entire Loan Term – 30 Year Fixed = 360 pmts



Renewal and Cancellation

Term for initial rate: 360
Term for renewal annual rate: 0
Renewal annual premium rate: 0.000%
Renewal monthly amount: $0.00
Cancel at LTV: 0.000% ☐ Cancel at midpoint
Minimum number of payments before cancellation: 360

EXAMPLE: MIP for entire Loan Term – 15 Year Fixed = 180 pmts



Renewal and Cancellation

Term for initial rate: 180
Term for renewal annual rate: 0
Renewal annual premium rate: 0.000%
Renewal monthly amount: $0.00
Cancel at LTV: 0.000% ☐ Cancel at midpoint
Minimum number of payments before cancellation: 180

FHA RESALE REQUIREMENTS

Property Flipping

Property flipping is a practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value. FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property.
Note: Minimum 620 Credit required for flipped properties.

Resale Less Than or Equal to 90 Days

The following are iServe guidelines for properties that meet FHA's Temporary Flip Waiver where the seller has been on title 90 days or less:

- The FHA flipping waiver applies only to fully executed sales contract dates on or before December 31, 2014
- All transactions must be arms-length; no identity of interest between buyer, property seller or third parties.
- Seller must hold title to the property and be represented on the contract of sale.
- In cases where a limited liability company, corporation, or trust is serving as the seller, proof is required that they are established and operating in accordance with applicable state and federal law. Examples of acceptable proof include; articles of incorporation with the seal, active business license or a print out from state licensing divisions website.
- No pattern of previous flipping activity exists for the subject property as evidenced by multiple title transfers within a 12 month time frame (chain of title information for the subject property can be found in the appraisal report or within the title report)
- The property was marketed openly and fairly, through a multiple listing service (MLS), auction, for sale by owner offering, or developer marketing. Examples of acceptable proof include; MLS listing as identified on the appraisal, for sale by owner advertisement or auction roster. (Any sales contracts that refer to an "assignment of contract of sale", which represents a special arrangement between seller and buyer may be a red flag).

In cases in which the sale of the subject property is greater than 20 percent above the seller's acquisition cost the following are required:

- A full second appraisal in compliance with FHA's standards and completed by an FHA roster appraiser, which verifies that the seller has completed sufficient legitimate renovations, repairs, and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is preformed, the appraiser must provide appropriate explanation of the increase in property value since the prior title transfer.

  NOTE: The cost of the second appraisal <u>cannot be charged to or passed on to the borrower</u>. Any second appraisal costs incurred by iServe will be charged to the seller or originating branch. Furthermore, the cost of both appraisals must be on the GFE.

- A property inspection must be reviewed and approved. At a minimum, the inspection must include:
  - The property structure, include the foundation, floor, ceiling, walls and roof
  - The exterior, including siding, doors, windows, appurtenant structures such as decks and balconies, walkways and driveways
  - The roofing, plumbing system, electrical system, heating and air conditioning system
  - All interiors; and
  - All insulation and ventilation systems, as well as fireplace and solid fuel-burning appliances

NOTE: Borrower must acknowledge in writing that they were provided a copy of the property inspection report prior to closing. The inspector must have no interest in the property or relationship with the seller. If the inspection report notes that repairs are required because of structural or "health and safety" issues, those repairs must be completed prior to closing. After completion of repairs to address structural or "health and safety" issues, the inspector must conduct a final inspection to determine if the repairs have been completed satisfactorily and eliminated the structural or "health and safety" issue.

Transactions involving one of the following exemptions are not subject to the restrictions on page 26:

- FHA REO properties sold by FHA.
- Resale of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- A builder selling a newly built home or building a home for a homebuyer wanting to use FHA-insured financing (example: A builder selling to another builder prior to the completion of a home would be exempt from the time restrictions.)
- Property inherited by the property seller. The property seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The property seller must still be the owner of record but the 90 day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sales of properties by state and federally charted financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). Note: Mortgage Insurance companies are not considered a state or federally chartered financial institution and are not qualified as a GSE.
- Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
- Sales of properties by local and state government agencies.
- Sales of properties within Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster

PROPERTY ELIGIBILITY

Property eligibility is dependent upon the time that has elapsed between the date the seller acquired the property (based on the settlement date) and the date the buyer signed the sales contract or purchase offer (the resale date).

RESALE GREATER THAN 90 DAYS

Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation, including an additional appraisal as follows:

If the resale price is greater than or equal to 100% over the property seller's acquisition price, a second FHA appraisal (from a different appraiser) is required. The second appraisal must be paid for by the originating branch or seller and disclosed on the GFE. If the resale price is less than 100% of the property seller's acquisition price, then no additional appraisal documentation is required.

ORIGINATORS & OPERATIONS SECTION

CLOSING COSTS

- Tax service fee not allowed – Make sure you select the correct template when setting up the loan in LQB
- Third-party fees may not be "marked up" – must be exact cost of provider.
- Borrower-paid closing costs may not be used/counted as part of the borrower's required investment (ML 2008-23).
- Seller's real estate tax proration to be credited at closing may not be considered at the time of underwriting as a source of the applicant's required funds to close.
- Effective with case numbers assigned on or after November 17, 2009, discount points may not be included in the new mortgage on streamline refinances. (ML 09-32)
- The borrower may use a credit card to pay for the appraisal and credit report. These costs cannot be considered to help meet the required investment.
  Requirements:
  - HUD-1 must reflect a POC credit to the borrower for the amount charged.
  - Verification of one of the following is required:
    The borrower has sufficient liquid funds to cover the entire cost of the fees charged to the credit card, **or**
    Updated credit supplement from a credit reporting agency verifying the new balance and the required payments per the creditor. The new balance must be included in the qualifying ratio calculation. **or**
    5% of the total balance (previous verified balance plus new charges) must be used as the new payment. The updated payment as recalculated must be included in the qualifying ratio calculation.
    Example: The balance reported on the credit report is $1,000 and there is evidence to indicate the payment is $25 per month. After the credit report date, the borrower uses the credit card to pay for an appraisal, increasing the balance on the credit to $1,350. The payment will be based on 5% of the entire new balance $1,350, for a new payment of $67.50.

CLOSING REQUIREMENTS

- Interest credit (funding into the month) allowed (calculated at 1/365th). Loan must fund by the 5th calendar day of the month preceding the first payment date.
- A full 30 days of interest will be charged for the month in which the loan funds (as allowed by HUD and charged by servicers when the payoff is not received on the 1st day of the month).
- Proof that the previous month's payment was made within the month due. (e.g. updated payoff statement)
- For FHA Streamline and no-Cash-Out refinance transactions, any cash received by the borrower at closing must be incidental due to changes in the payoff and cannot exceed $500.
- Termite, Well and Septic Inspections/Certifications are required as noted on appraisal and/or sales agreement.
- A minimum of 12 months chain of title as evidenced by the title commitment satisfactory to review and meeting FHA anti-flipping requirements
- Balance as reflected by the title commitment or credit report must be consistent with the payoff shown on the HUD-1. Non-lien payoffs may not exceed $5,000.
- Principal curtailments allowed up to $999.
- Escrow netting and/or escrow transfers are not allowed.

CASE NUMBER ASSIGNMENT

The case number assignment date cannot be prior to the loan application date, except in the case of an unexpired appraisal that was:

- ordered for a different loan applicant, ***or***
- ordered for the same loan applicant when they applied with a different company

ESCROW / IMPOUND ACCOUNTS

Required on FHA for property taxes and insurance regardless of LTV.

ESCROW HOLDBACKS

Not Allowed.

INITIAL DISCLOSURES

Select FAMC documents in Doc Magic for Initial Disclosures.

ELECTRONIC INITIAL DISCLOSURES / eSign

Allowed via Doc Magic

LOAN DOCUMENTS

Closers to select FAMC documents in Doc Magic.

HPML LOANS

Allowed on Purchase, Rate/Term & Cash-Out Refinances

- HPML Forms must be completed by U/W
- Checkbox in LQB Screen "This Loan Info" – Field "Higher Priced Mortgage" must be checked

Not Allowed on Non-Credit Qualifying Streamlines

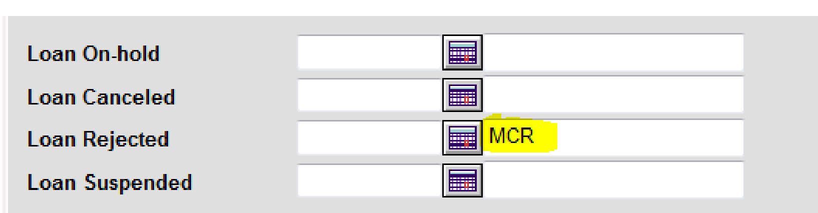
LDP / GSA

The following entities must be checked against HUD's Limited Denial of Participation (LDP) list at AND the General Services Administration's (GSA) Excluded Party List through the agents section in LQB/DataVerify. Any entity noted on either of the LDP and GSA lists will cause the loan to be ineligible.

- Borrower(s)
- Seller(s)
- Loan Officer
- Listing Agent
- Selling Agent
- Appraiser
- Settlement Agent
- Non Purchasing Spouse
- Title Officer
- Notary

MORTGAGE CREDIT REJECT (MCR)

If the current case number has a Mortgage Credit Reject from a prior lender, processor and/or underwriter needs to enter "MCR" in comments section of the "Loan Rejected" Field. ["Status", "General" screen of LQB] Do not put a date. ONLY add "MCR" in the comments section on the far right. This assures government insuring/post-closing will send the file out for insuring. See below:



SERVICING – Provided by our Subservicer under our name

Phone Number: (855) 281-9200 5am – 5pm M-F
Phone Number for EZ Pay – 24/7 payments: (888) 593-2729
Website for Servicing: www.iservelending.servicemyloan.com
Payment Address: iServe Residential Lending
PO Box 513738
Los Angeles CA 90051-3738
(Write your account number on your check)

Mobile phone application in iPhone App Store or Android/Google Play – "Service My Loan"

TITLE

An American Land Title Association (ALTA) title policy must be provided on every loan.
On refinances a 12 month chain of title is required.