II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

The Title II Insured Housing Programs Forward Mortgages, Origination through Post-closing/Endorsement section in this *FHA Single Family Housing Policy Handbook* (Handbook 4000.1) provides the origination, underwriting, closing, post-closing, and endorsement standards and procedures applicable to all Single Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The Mortgagee must fully comply with all of the following standards and procedures in originating, underwriting, and closing for obtaining Federal Housing Administration (FHA) mortgage insurance on a Mortgage. If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program or product specific standards and procedures are explicitly stated. Terms and acronyms used in this Handbook 4000.1 have their meanings defined in the Glossary and Acronyms and in the specific section of Handbook 4000.1 in which the definitions are located.

1. Origination/Processing

a. Applications and Disclosures (04/18/2023)

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

i. Contents of the Mortgage Application Package

The Mortgagee must maintain all information and documentation that is relevant to its approval decision in the mortgage file. All information and documentation that is required in this Handbook 4000.1, and any incidental information or documentation related to those requirements, is relevant to the Mortgagee's approval decision.

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

(A) General Requirements

(1) Maximum Age of Mortgage Documents

(a) General Document Age

Documents used in the origination and underwriting of a Mortgage may not be more than 120 Days old at the Disbursement Date, except for appraisals, which are subject to separate validity period requirements. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided in this Handbook 4000.1, Day one is the Day after the effective or issue date of the document, whichever is later.

(b) Appraisal Validity

***(i)* Initial Appraisal Validity**

The initial appraisal validity period is 180 Days from the effective date of the appraisal report (see Ordering Appraisals).

***(ii)* Appraisal Update**

Where the initial appraisal report will be more than 180 Days at Disbursement Date, an appraisal update may be performed to extend the appraisal validity period (see Ordering an Update to an Appraisal). Where the initial appraisal is updated, the updated appraisal is valid for one year after the effective date of the initial appraisal report that is being updated.

(2) Handling of Documents

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

Exception for Mortgagees and TPOs

The Mortgagee and TPO are permitted to handle documents relating to the employment, income, assets, credit, or occupancy of Borrowers.

(a) Information Sent to the Mortgagee Electronically

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

(b) Information Obtained via Internet

The Mortgagee must authenticate documents obtained from an internet website and examine portions of printouts downloaded from the internet.

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

(c) Confidentiality Policy for Credit Information

Mortgagees must not divulge sources of credit information, except as required by a contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with:

- the Fair Housing Act, 42 U.S.C. 3601 et seq.;
- the Fair Credit Reporting Act, Public Law 91-508;
- the Right to Privacy Act, Public Law 93-579;
- the Right to Financial Privacy Act, Public Law 95-630; and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

(3) Signature Requirements for All Application Forms

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

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

- the incapacitated individual will occupy the Property to be insured, or the Property is being underwritten as an eligible Investment Property; and
- the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

For guidance on use of POA on closing documents refer to Use of Power of Attorney at Closing.

Prohibition on Documents Signed in Blank

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

(4) Policy on Use of Electronic Signatures

(a) Definition

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

(b) Use of Electronic Signatures

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

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

(c) Electronic Signature Performance Standards

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

(i) The Electronic Signatures in Global and National Commerce Act (ESIGN Act) Compliance and Technology

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

(ii) Third Party Documents

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

(iii) Authorized Documents

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

- **Mortgage Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the case binder for mortgage insurance except the Note. FHA will accept electronic signatures on the Note for forward Mortgages only. FHA will not accept electronic signatures on HECM Notes.

- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Mortgages.

- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-27011, *Single Family Application for Insurance Benefits*.

- **HUD Real Estate Owned (REO) Documents:** Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda.

(iv) Associating an Electronic Signature with the Authorized Document

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

(v) Intent to Sign

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

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and
- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

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

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

(vi) Single Use of Signature

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

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

(vii) Authentication

Definition

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

Standard for Authentication

Before a Mortgagee submits the case for endorsement, the Mortgagee must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:

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

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

(viii) Attribution

Definition

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

Standard for Attribution

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

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

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;
- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using "out of band/wallet" information;
- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement,

together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

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

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

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

(d) Required Documentation and Integrity of Records

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

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

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

(B) Mortgage Application and Initial Supporting Documentation

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

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

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

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

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

(2) Mortgage Application Name Requirements

(a) Standard

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

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

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

Exception

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

(b) Required Documentation

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

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

(C) Borrower Authorization for Verification Information

(1) Borrower's Authorization

(a) Standard

The Mortgagee must obtain the Borrower's authorization to verify the information needed to process the mortgage application. The Mortgagee must obtain a non-borrowing spouse's consent and authorization where necessary to verify specific information required to process the mortgage application, including the non-borrowing spouse's consent for the Mortgagee to verify their SSN with the Social Security Administration (SSA).

(b) Required Documentation

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

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

The Mortgagee must obtain the Borrower's signature on Part II of form HUD-92900-A to verify the Borrower's SSN with the SSA.

(3) Tax Verification Form or Equivalent

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

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

(1) Standard

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

(2) Required Documentation

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

(E) Sales Contract and Supporting Documentation

(1) Sales Contract

(a) Standard

The Mortgagee must not originate an insured Mortgage for the purchase of a Property if any provision of the sales contract violates FHA requirements.

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

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

The Family Member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

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

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

(i) Amendatory Clause

If the Borrower does not receive form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value,* before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause that contains the following language:

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

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

An amendatory clause is not required in connection with:

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

(ii) Real Estate Certification

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

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

***(iii)* Property Assessed Clean Energy**

Where the subject Property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to, closing.

(b) Required Documentation

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

(2) Statement of Appraised Value

The Borrower must receive a copy of form HUD-92800.5B.

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

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

ii. Disclosures and Legal Compliance

(A) HUD Required Disclosures

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

(1) Informed Consumer Choice Disclosure

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

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

The Mortgagee must provide the Borrower with a copy of form HUD-92900-B, *Important Notice to Homebuyers*, signed by the Borrower and provide the Borrower with a copy to keep for the Borrower's records when the Borrower applies for the Mortgage. The Mortgagee must retain the original form HUD-92900-B signed by the Borrower.

(3) Lead-Based Paint

If the Property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such Properties, the Mortgagee must ensure that:

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

duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

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

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

(B) Compliance with All Applicable Laws, Rules, and Requirements

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

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

(C) Nondiscrimination Policy

The Mortgagee must fully comply with all applicable provisions of:

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act, Public Law 91-508; and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

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

iii. Application Document Processing

(A) Mortgagee Responsibilities

The Mortgagee must order the FHA case number and perform any associated tasks in FHA Connection (FHAC). For a Single-Unit Approval, the Mortgagee must follow the Single-Unit Approval case number assignment process. The Mortgagee may use nonemployees in connection with its origination of FHA-insured Mortgages only as described below. The Mortgagee ultimately remains responsible for the quality of the Mortgage and for strict compliance with all applicable FHA requirements, regardless of the Mortgagee's relationship to the person or entity performing any particular service or task.

(1) Sponsored Third-Party Originator

The Mortgagee is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Mortgagees acting in the capacity of a sponsored TPO may have direct access to FHAC.

(2) Housing Counseling Services

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

(3) Other Contract Service Providers

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

(4) Excluded Parties

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

(B) Initial Document Processing

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

(1) Ordering Case Numbers

The Mortgagee must use FHAC to order FHA case numbers. A case number can be obtained only when the Mortgagee has an active mortgage application for the subject Borrower and Property.

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

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

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

(a) Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the Mortgage is to be insured. The Mortgagee must select the correct ADP code for each Mortgage in FHAC.

(b) Case Numbers on Sponsored Originations

The Mortgagee will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in FHAC.

(2) Holds Tracking

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

(3) Canceling and Reinstating Case Numbers

(a) Canceling a Case Number

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

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

The Mortgagee must submit a request for cancellation to the FHA Resource Center at answers@hud.gov using the Case Cancellation Request Template.

(b) Automatic Case Number Cancellations

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

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

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

(c) Reinstatement of Case Numbers

The Mortgagee may request reinstatement of canceled case numbers by submitting a request to the FHA Resource Center using the Case Reinstatement Request Template.

Case numbers that were automatically canceled will be reinstated only if the Mortgagee provides evidence that the subject Mortgage closed prior to cancellation of the case number, such as a Closing Disclosure or similar legal document.

(4) Transferring Case Numbers

(a) Requirements for the Transferring Mortgagee

The original Mortgagee must assign the case number to the new Mortgagee using the Case Transfer function in FHAC immediately upon the Borrower's request.

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

The original Mortgagee may not charge the Borrower for the transfer of any documents, but the original Mortgagee may negotiate a fee with the new Mortgagee for providing the processing documents. The original Mortgagee is never entitled to a fee for the transfer of processing documents for a Streamline Refinance.

(b) Case Number Transfer Involving a Rejected Mortgage

If the transfer involves a rejected Mortgage, the original Mortgagee must complete the Mortgage Credit Reject function in FHAC prior to transferring the Mortgage.

(c) Case Number Transfer Involving a Sponsored Third-Party Originator

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

(5) Ordering Title Commitments

The Mortgagee must order a title commitment to ensure the Property will be properly titled and the Mortgage secured in accordance with FHA requirements.

(6) Ordering Appraisals

The Mortgagee must order a new appraisal for each case number assignment and may not reuse an appraisal that was performed under another active or endorsed case number, even if the prior appraisal is not yet more than 180 Days old.

(a) Appraisal Integrity

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

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

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

(b) Selection of a Qualified Appraiser

The Mortgagee must order an appraisal from an Appraiser who is listed on the FHA Appraiser Roster and is qualified and knowledgeable in the specific market area in which the Property is located. The Mortgagee must evaluate the Appraiser's education, training and actual field experience to determine whether the Appraiser has sufficient qualifications to perform the appraisal before assignment.

The Mortgagee may not discriminate on the basis of race, color, religion, national origin, sex (including sexual orientation or gender identity), age, familial status, or disability, in the selection of an Appraiser.

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

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

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

(d) Appraiser Independence

The Mortgagee must ensure it does not compromise the Appraiser's independence.

The Mortgagee, or any third party specifically authorized by the Mortgagee, is responsible for selecting, retaining, and providing for payment of all compensation to the Appraiser. The Mortgagee or authorized third party may not allow the Appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a Mortgagee's or authorized third party's staff who is compensated on a commission basis tied to the successful completion of a Mortgage, or who is not independent of the Mortgagee's mortgage production staff or processes or the authorized third party's staff or processes.

The Mortgagee must ensure that it does not:

- compensate the Appraiser at a rate that is not commensurate in the market area of the Property being appraised with the assignment type, complexity and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;
- prohibit the Appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;
- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- provide to the Appraiser, appraisal company, AMC or any entity or person related to the Appraiser, appraisal company or AMC, stock or other financial or nonfinancial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a Mortgage financing transaction unless:
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the mortgage file; or
  - such appraisal or AVM was completed pursuant to written, preestablished bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and

the Mortgagee adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;

- withhold or threaten to withhold future business from an Appraiser, or demote or terminate or threaten to demote or terminate an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions, or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- allow the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified Appraisers, used by any entity, without prompt written notice to such Appraiser. The notice must include written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior, or other substantive reason for removal;
- request that an Appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- provide to the Appraiser an anticipated, estimated, encouraged, or desired value for a subject Property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or
- perform any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

(e) Additional Requirements When Ordering an Appraisal

The Mortgagee must provide to the selected Appraiser the FHA case number and a complete copy of the subject sales contract including all addendums, land lease, surveys and other legal documents contained in the mortgage file necessary to analyze the Property.

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

Where the Mortgagee determines that the Property is subject to a PACE obligation, it must notify the Appraiser that the PACE obligation will be paid off as a condition of loan approval.

(7) Appraisal Effective Date

(a) Standard

The effective date of the appraisal cannot be before the FHA case number assignment date unless the Mortgagee certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional financing, or other government-guaranteed loan purposes and was performed by an FHA Roster Appraiser, or the previous FHA case number was canceled.

The Mortgagee must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in this Handbook 4000.1 and the Appraisal Report and Data Delivery Guide. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the Mortgagee must be indicated as the intended users of the appraisal report.

(b) Required Documentation

The Mortgagee must retain documentation in the case binder substantiating conversion of the Mortgage to FHA.

(8) Transferring Existing Appraisals

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

The second Mortgagee may not request the Appraiser to readdress the appraisal. If the second Mortgagee finds deficiencies in the appraisal, the Mortgagee must order a new appraisal.

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

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

(9) Ordering Second Appraisal

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

The Mortgagee may order a second appraisal for Mortgages that are in accordance with requirements on Property Flipping.

(a) Second Appraisal by Original Mortgagee

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

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

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

(b) Second Appraisal by Second Mortgagee

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

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

(c) Use of Second Appraisal

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

(d) Required Documentation

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

(10) Ordering an Update to an Appraisal

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

The Mortgagee may use an appraisal update only if:

- it is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster;
    - if a substitute Appraiser is used due to the lack of the original Appraiser availability, the substitute Appraiser must state they concur with the analysis and conclusions in the original appraisal report, and the Mortgagee must document in the case binder why the original Appraiser was not used;
- the Property has not declined in value;
- the building improvements that contribute value to the Property can be observed from the street or a public way;
- the Property meets Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) based on the original appraisal conditions;
- the appraisal update was performed by the Appraiser within one year from the effective date of the initial appraisal being updated; and
- the appraisal update is performed before the Disbursement Date.

(11) Appraisal Delivery – Electronic Appraisal Delivery (03/14/2022)

(a) Definition

The Electronic Appraisal Delivery (EAD) is a web-based platform where Mortgagees or their designated technology service providers electronically deliver FHA Single Family appraisal reports prior to endorsement.

(b) Standard

Mortgagees or their designated technology service providers must deliver appraisals through FHA's EAD portal.

(c) Required Documentation

Appraisals submitted through FHA's EAD portal are the appraisals required for endorsement.

b. General Mortgage Insurance Eligibility (12/21/2022)

i. Mortgage Purpose

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

(A) Purchase/Construction to Permanent

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

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

(B) Rehabilitation

(1) 203(k) Standard and Limited Rehabilitation Mortgages

The Section 203(k) Rehabilitation Mortgage Insurance is used to:

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

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

The Section 203(h) Mortgage Insurance for Disaster Victims program allows FHA to insure Mortgages made by qualified Mortgagees to victims of a Presidentially-Declared Major Disaster Area (PDMDA) who have lost their housing, or whose housing was damaged and are in the process of rebuilding or buying another house.

(C) Refinance

A refinance transaction is used to pay off the existing debt or to withdraw equity from the Property with the proceeds of a new Mortgage for a Borrower with legal title to the subject Property.

Types of Refinances

FHA insures several different types of refinance transactions:
1. Cash-out refinances are designed to pull equity out of the Property.
2. No cash-out refinances of FHA-insured and non FHA-insured Mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.
3. Refinances for rehabilitation or repair (Section 203(k)).

ii. Borrower Eligibility

(A) General Borrower Eligibility Requirements

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

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

(1) Social Security Number

(a) Standard

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

Exception

Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations are not required to provide an SSN.

(b) Required Documentation

The Mortgagee must:
- validate and document an SSN for each Borrower, co-Borrower, or Co-signer on the Mortgage by:
  - entering the Borrower’s name, date of birth, and SSN in the Borrower/address validation screen through FHAC; and

    - examining the Borrower's original pay stubs, W-2 forms, valid tax returns obtained directly from the IRS, or other document relied upon to underwrite the Mortgage; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during Mortgage processing and underwriting using a service provider to verify the SSN with the SSA.

(2) Borrower Age Limits

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

(3) Borrower Minimum Decision Credit Score

(a) Definition

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

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

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

(b) Eligibility Standard

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

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

To be eligible, all occupying and non-occupying Borrowers and co-Borrowers must take title to the Property in their own name or a living trust at settlement, be obligated on the Note or credit instrument, and sign all security instruments.

In community property states, the Borrower's spouse is not required to be a Borrower or a Co-signer. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

(5) Co-signer Requirements

Co-signers are liable for the debt and therefore, must sign the Note. Co-signers do not hold an ownership interest in the subject Property and therefore, do not sign the security instrument.

(6) Principal Residence in the United States

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

(7) Military Personnel Eligibility

(a) Standard

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

(b) Required Documentation

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

The Mortgagee must obtain the Borrower's intent to occupy the subject Property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.

(8) Citizenship and Immigration Status

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

(9) Residency Requirements

The Mortgagee must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation. A Social Security card is not sufficient to prove immigration or work status. The following categories of individuals are eligible for FHA-insured financing in accordance with the requirements set forth below:

(a) Permanent Residents

***(i)* Standard**

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

***(ii)* Required Documentation**

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

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

(b) Non-permanent Residents

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

- the Property will be the Borrower's Principal Residence;
- the Borrower has a valid SSN, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- the Borrower is eligible to work in the United States provided the Borrower provides either:
  - an Employment Authorization Document (USCIS Form I-766) showing that work authorization status is current;
  - a USCIS Form I-94 evidencing H-1B status, and evidence of employment by the authorized H-1B employer for a minimum of one year;
  - evidence of being granted refugee or asylee status by the USCIS; or
  - evidence of citizenship of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau; and
- the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

If the Employment Authorization Document (USCIS Form I-766) or evidence of H-1B status will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the employer or the USCIS.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS must provide documentation:

- Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee or asylum status, or
- USCIS Form I-797 notice indicating approval of a USCIS Form I-589, Application for Asylum or Withholding of Removal substantiating the refugee or asylee status.

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

(a) Standard

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

(b) Verification

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

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

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

(c) Resolution

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

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

(d) Required Documentation

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

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

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

(12) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

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

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

(b) Verification

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

(c) Required Documentation

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

(13) Valid First Liens

The Mortgagee must ensure that the mortgaged Property will be free and clear of all liens, except the insured Mortgage and any secondary liens permitted by FHA regulations at 24 CFR §§ 203.32 and 203.41.

(a) Consent of Non-borrowing Spouses

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

(b) Tax Liens

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

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

(a) Eligibility Criteria for a Mortgage for Nonprofit Organizations

(i) Standard

HUD-approved Nonprofit organizations may be eligible for FHA-insured Mortgages.

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

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

(ii) Required Documentation

A HUD-approved Nonprofit must be listed on the HUD Nonprofit Agency Roster and intend to sell or lease the Property to Low- to Moderate-Income families.

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

(i) Standard

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

- the agency has the legal authority to become the Borrower;
- the particular state or local government is not in bankruptcy; and
- there is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government.

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

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

(ii) Required Documentation

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

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

(15) Eligibility Requirements for Living Trusts

(a) Property Held in Living Trusts

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

(b) Living Trusts and Security Instruments

(i) Standard

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

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

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

***(ii)* Required Documentation**

The Mortgagee must obtain a copy of the trust documentation.

(B) Excluded Parties

The Mortgagee must establish that no participants are Excluded Parties and document the determination on form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(1) Borrower

(a) Standard

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

(b) Required Documentation

The Mortgagee must check the HUD LDP list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

The Mortgagee must check SAM (www.sam.gov) and follow appropriate procedures defined by that system to confirm eligibility for participation.

The Mortgagee must check the "Yes" box on form HUD-92900-LT if the Borrower appears on either the LDP or SAM list.

(2) Other Parties to the Transaction

(a) Standard

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

- seller (except where selling the Principal Residence)
- listing and selling real estate agent

- loan originator
- loan processor
- underwriter
- Appraiser
- 203(k) Consultant
- Closing Agent
- title company

(b) Required Documentation

The Mortgagee must check the HUD LDP list and SAM (www.sam.gov) and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

iii. Occupancy Types

(A) Principal Residence

(1) Definition

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

(2) Standard

(a) FHA Requirement for Owner Occupancy

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

203(k) Rehabilitation products may have different requirements for the length of time to occupy the Property.

(b) FHA-Insured Mortgages on Principal Residences

FHA will not insure more than one Property as a Principal Residence for any Borrower, except as noted below. FHA will not insure a Mortgage if it is determined that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining Investment Properties, even if the Property to be insured will be the only one owned using FHA mortgage insurance.

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

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

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

Policy Exceptions	**Eligibility Requirements**
Relocation	A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is: • relocating or has relocated for an employment-related reason; and • establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower’s current Principal Residence. If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.
Increase in family size	A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.
Vacating a jointly-owned Property	A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.

Policy Exceptions	Eligibility Requirements
Non-occupying co-Borrower	A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for another FHA-insured Mortgage on a new Property to be their own Principal Residence. A Borrower with an existing FHA-insured Mortgage on their own Principal Residence may qualify as a non-occupying co-Borrower on other FHA-insured Mortgages.

(3) Required Documentation

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

(B) Secondary Residence

(1) Definition

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

(2) Standard

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

(3) Required Documentation

The Mortgagee must demonstrate the lack of affordable rental housing, and include:
- a satisfactory explanation of the need for a Secondary Residence and the lack of available rental housing; and

- written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

(C) Investment Property

(1) Definition

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

(2) Standard

Investment Properties are not eligible for FHA insurance.

Exception

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

Investment Properties are eligible for insurance under the HUD Real Estate Owned (REO) Purchasing product, except under the 203(k) program.

iv. Property Eligibility and Acceptability Criteria

(A) General Property Eligibility

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

(1) Special Flood Hazard Areas

The Mortgagee must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Mortgagee must obtain flood zone determination services, independent of any assessment made by the Appraiser, to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

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

To be eligible for FHA insurance, a Property located in an SFHA must be in a community that participates in the National Flood Insurance Program (NFIP) and has NFIP available, regardless of whether the Borrower obtains NFIP coverage.

(a) Flood Insurance

***(i)* Definitions**

Flood Insurance refers to insurance provided by a National Flood Insurance Program (NFIP) or a Private Flood Insurance (PFI) policy that covers physical damage by floods.

A National Flood Insurance Program (NFIP) policy refers to insurance managed by the Federal Emergency Management Agency (FEMA) that covers physical damage by floods.

A Private Flood Insurance (PFI) policy refers to insurance provided by a private insurance carrier that covers physical damage by floods.

***(ii)* Standard**

Eligible Properties

If the property improvements (dwelling and related structures/equipment essential to the value of the Property and subject to flood damage) are located in an area designated by FEMA as an SFHA and NFIP insurance is available in that community, the Mortgagee must ensure the Borrower obtains and maintains Flood Insurance.

Required Flood Insurance Coverage

For Properties located within an SFHA, Flood Insurance must be maintained for the life of the Mortgage in an amount at least equal to the lowest of the following:

- 100 percent replacement cost of the insurable value of the improvements, which consists of the development or project cost less estimated land cost;
- the maximum amount of NFIP insurance available with respect to the particular type of Property; or
- the outstanding principal balance of the Mortgage.

Requirements for PFI

If the Borrower purchases a PFI policy in lieu of an NFIP policy, the Mortgagee must ensure the PFI policy meets the following requirements:

- is issued by an insurance company that is licensed, admitted, or otherwise approved to engage in the business of insurance in the state or jurisdiction in which the Property to be insured is located, by the insurance regulator of the state or jurisdiction; or, in the case of a policy of difference in conditions, multiple peril, all risk, or other blanket coverage insuring nonresidential commercial property, is recognized, or not disapproved, as a surplus lines insurer by the insurance regulator of the state or jurisdiction where the Property to be insured is located;

- provides Flood Insurance coverage that is at least as broad as the coverage provided under a standard Flood Insurance policy under the NFIP for the particular type of property, including when considering exclusions and conditions offered by the insurer;
- includes deductibles that are no higher than the specified maximum, and includes similar nonapplicability provisions, as under a standard Flood Insurance policy under the NFIP;
- includes a requirement for the insurer to provide written notice 45 Days before cancellation or nonrenewal of Flood Insurance coverage to the Borrower and the Mortgagee. In cases where the Mortgagee has assigned the loan to HUD, the insurer must provide notice to HUD and, where applicable, to the Borrower;
- includes information about the availability of Flood Insurance coverage under the NFIP;
- includes a mortgage interest clause similar to the clause contained in a standard Flood Insurance policy under the NFIP;
- includes a provision requiring the Borrower to file suit no later than one year after the date of a written denial for all or part of a claim under the policy; and
- contains cancellation provisions that are as restrictive as the provisions contained in a standard Flood Insurance policy under the NFIP.

(iii) **Private Flood Insurance Policy Compliance Aid**

Definition

The Private Flood Insurance (PFI) Policy Compliance Aid is the statement: “This policy meets the definition of private flood insurance contained in 24 CFR 203.16a(e) for FHA-insured mortgages.”

Standard

The PFI Policy Compliance Aid may be made by the insurance provider, attesting that a PFI policy meets the requirements of Flood Insurance. The Mortgagee may rely on the PFI Policy Compliance Aid to determine whether a PFI policy meets the Flood Insurance requirements. A Mortgagee may not reject a policy solely because it is not accompanied by a PFI Policy Compliance Aid.

***(iv)* Required Documentation**

For Properties located within an SFHA, the Mortgagee must include in the case binder:

- a Life of Loan Flood Certification for all Properties;
- if applicable, include a:
  - FEMA Letter of Map Amendment (LOMA);
  - FEMA Letter of Map Revision (LOMR); or
  - FEMA NFIP Elevation Certificate (FEMA Form 086-0-33); and
- a copy of the certificate of Flood Insurance or complete copy of the Flood Insurance policy, if required.

***(v)* Required Reporting**

The Mortgage must report the required Flood Insurance information in the insurance application screen in FHAC.

(b) Eligibility for New Construction in SFHAs

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

- obtains from FEMA a final LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33). The Elevation Certificate must document that the lowest floor including the basement of the residential building, and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria; and
- ensures that Flood Insurance is obtained.

(c) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, Flood Insurance must be obtained.

(d) Eligibility for Condominiums in SFHAs

The Mortgagee must ensure the Condominium Association obtains Flood Insurance on buildings located within the SFHA. The Flood Insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(e) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures, or equipment essential to the Property Value and subject to flood damage for both new and existing Manufactured Homes are located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the Mortgagee:

- obtains a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- obtains a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33) showing that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation; and
- ensures that Flood Insurance is obtained.

(f) Restrictions on Property Locations within Coastal Barrier Resources System

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

(2) Seller Must Be Owner of Record

(a) Standard

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

(b) Required Documentation

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

Such documentation may include, but is not limited to:

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

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

(3) Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value.

(a) Definition

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

(b) Standard

(i) Time Restriction on Transfers of Title

The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the resale date.

The Seller's Date of Acquisition refers to the date the seller acquired legal ownership of that Property. The Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured Mortgage for the resale of the Property.

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

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

(iii) Resales Occurring between 91 Days and 180 Days after Acquisition

A Mortgagee must obtain a second appraisal by another Appraiser if:

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

If the second appraisal supports a value of the Property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value.

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

(iv) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;
- sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
- sales of Properties by nonprofits approved to purchase HUD owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;
- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

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

(c) Required Documentation

The Mortgagee must obtain a 12 month chain of title documenting compliance with time restrictions on resales.

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

(a) Standard

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

(b) Required Documentation

The Mortgagee must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property,* for each Mortgage secured by:

- a one-unit Single Family dwelling with an Accessory Dwelling Unit (ADU);
- a two- to four-unit dwelling; or
- a Single Family dwelling that is one of a group of five or more dwellings owned by the Borrower within a two block radius.

(5) Mixed Use of Property

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

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

(6) Property Assessed Clean Energy

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements for residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the Property. In the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation will continue with the Property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

Properties which will remain encumbered with a PACE obligation are not eligible for FHA mortgage insurance.

(7) Dwelling Unit Limitation

(a) Standard

If the Mortgage will be secured by an Investment Property, including Mortgages for Governmental Entities or nonprofit Borrowers, the Borrower may not have a financial interest, regardless of the ownership or financing type, in more than seven Dwelling Units within a two block radius. In determining the number of Dwelling Units owned by the Borrower, the Mortgagee must count each Dwelling Unit in a two-, three-, and four-family Property.

(b) Required Documentation

If the Borrower owns six or more units within a two block radius, a map must be provided disclosing the locations of the units as evidence of compliance with FHA's seven unit limitation.

(B) Property Types

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated in this Handbook 4000.1, FHA's Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences. FHA insures Mortgages on Real Property secured by:

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

FHA will not insure Single Family Mortgages secured by:

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

(1) One Unit

A one-unit Property is a Single Family residential Property with a single Dwelling Unit, or with a single Dwelling Unit and a single ADU.

(2) Two Unit

(a) Definition

A two-unit Property is a Single Family residential Property with two individual Dwelling Units.

(b) Standard

The Mortgagee must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property.*

(3) Three to Four Unit

(a) Definition

A three- to four-unit Property is either:

- a Single Family residential Property with three or four individual Dwelling Units; or
- a Single Family residential Property with two individual Dwelling Units and one ADU or three individual Dwelling Units and one ADU.

(b) Standard

The Mortgagee must obtain a completed form HUD-92561.

(c) Self-Sufficiency Rental Income Eligibility

(i) Definition

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

(ii) Standard

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

(iii) Calculation

Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.

(4) Accessory Dwelling Unit

(a) Definition

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

(b) Standard

A Single Family residential Property with an ADU remains a one-unit Property. For any Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

(5) Condominium Unit

(a) Definitions

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

A Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

(b) Standard

A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA's definition of a Site Condominium, or have completed the FHA Single-Unit Approval process before a Mortgage can be insured.

(6) Site Condominiums

(a) Definition

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - consists of Single Family detached or horizontally attached (townhouse) dwellings where the Unit consists of the dwelling and land;
  - does not contain any Manufactured Housing Units; and
  - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

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

(b) Standard

The Unit owner must be responsible for all insurance and maintenance costs, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(7) Manufactured Housing

(a) Definition

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

(b) Standard

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

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

(c) Required Documentation

***(i)* HUD Certification Label**

If the appraisal indicates the HUD Certification Label is missing from the Manufactured Housing unit, the Mortgagee must obtain label verification from the Institute for Building Technology and Safety (IBTS).

***(ii)* PFGMH Certification**

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

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

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

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

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

(C) Property Valuation

The Mortgagee is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with HUD's Minimum Property Standards (MPS).

(1) Integrity of Valuation Process: Communications with Mortgagees

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

(a) Standard

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

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

(b) Exception for Smaller Mortgagees

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

(2) Communications with Third Parties

The underwriter may request a clarification or reconsideration of value from the Appraiser, following the requirements in Reconsideration of Value. The Mortgagee may not discuss the contents of an appraisal with anyone other than the Borrower.

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

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

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

v. Legal Restrictions on Conveyance (Free Assumability)

The Mortgagee must determine that any legal restrictions on conveyance conform with the requirements in 24 CFR § 203.41.

In accordance with 24 CFR § 203.41 (d)(1)(ii), FHA considers a reasonable share of appreciation to be at least 50 percent. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation. If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100 percent of the appreciation.

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

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

- be void, or voidable by a third party;
- be the basis of contractual liability of the Borrower (including rights of first refusal, preemptive rights or options related to a Borrower's efforts to convey);
- terminate or be subject to termination all or part of the interest held by the Borrower;

- be subject to the consent of a third party;
- be subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
- be grounds for accelerating the insured Mortgage; or
- be grounds for increasing the interest rate of the insured Mortgage.

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

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

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

2. Allowable Mortgage Parameters

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

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

a. Maximum Mortgage Amounts (01/01/2023)

A Mortgage that is to be insured by FHA cannot exceed the Nationwide Mortgage Limits.

Under most programs, the maximum Mortgage is the lesser of the Nationwide Mortgage Limit for the area, or a percentage of the Adjusted Value.

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

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

For refinance transactions:

- For Properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:
  - o the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
  - o the Property Value.
- Properties acquired by the Borrower within 12 months of case number assignment by inheritance or through a Gift from a Family Member may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.
- For properties acquired by the Borrower greater than or equal to 12 months prior to the case number assignment date, the Adjusted Value is the Property Value.

i. National Housing Act's Statutory Limits

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

ii. Nationwide Mortgage Limits [Effective for case numbers assigned on or after January 1, 2023]

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

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

(A) Requests for Local Increases

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

Each request to change Mortgage limits must contain sufficient housing sales price data, listing one-family Properties sold in an area within the 12-month look-back period, November through October of the previous year. Requests should differentiate between Single Family residential Properties, and condominiums or cooperative housing units. Ideally, data provided should also distinguish between distressed and non-distressed sales. Requests for a change will only be considered for counties for which HUD does not already have home sales transaction data for the calculation of Mortgage limits.

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

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

(B) Low-Cost Area

The FHA national low-cost area mortgage limits, which are set at 65 percent of the national conforming limit of $726,200 for a one-unit Property, are, by property unit number, as follows:

- One-unit: $472,030
- Two-unit: $604,400
- Three-unit: $730,525
- Four-unit: $907,900

(C) High-Cost Area

The FHA national high-cost area mortgage limits, which are set at 150 percent of the national conforming limit of $726,200 for a one-unit Property, are, by property unit number, as follows:

- One-unit: $1,089,300

- Two-unit: $1,394,775
- Three-unit: $1,685,850
- Four-unit: $2,095,200

(D) Special Exceptions for Alaska, Hawaii, Guam, and the Virgin Islands

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

- One-unit: $1,633,950
- Two-unit: $2,092,150
- Three-unit: $2,528,775
- Four-unit: $3,142,800

iii. Financing of Upfront Mortgage Insurance Premium

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

iv. Calculating Maximum Mortgage Amounts on Purchases

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

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

v. Additions to the Mortgage Amount for Repair and Improvement

(A) Appraiser Required Repairs

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

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

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

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

(B) Energy-Related Weatherization Repairs and Improvements

A Mortgagee may add energy-related weatherization costs, to be paid for by the Borrower, in accordance with Weatherization policies.

(C) Solar Energy Systems

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

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

b. Loan-to-Value Limits (02/16/2021)

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

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

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

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

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

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

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

ii. Purchase

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

For special programs and products including refinances, the maximum LTV is determined in accordance with requirements listed in the Programs and Products section.

(A) LTV Limitations Based on Identities of Interest

(1) Definitions

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

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

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

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

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

(3) Exceptions to the Maximum LTV

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

(a) Family Member Transactions

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

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

(b) Builder's Employee Purchase

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

(c) Corporate Transfer

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

(d) Tenant Purchase

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

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

(B) LTV Limitations Based on Non-Occupying Borrower Status

(1) Definition

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

(2) Maximum LTV for Non-Occupying Borrower Transaction

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

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

iii. Refinance

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

iv. New Construction

For New Construction transactions, the maximum LTV is determined in accordance with New Construction program specific requirements.

c. Required Investment (09/14/2015)

i. Total Required Investment

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

ii. Minimum Required Investment

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

d. Maximum Mortgage Term (09/14/2015)

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

e. Mortgage Insurance Premiums (09/14/2015)

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

i. Upfront Mortgage Insurance Premium

(A) Upfront Mortgage Insurance Premium Amount

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

The UFMIP charged for all amortization terms is 175 Basis Points (bps), unless otherwise stated in the applicable Programs and Products or in the MIP chart.

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

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

(B) Refund and Credit of Upfront Mortgage Insurance Premium

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured Mortgage. See the Refinances Section.

ii. Annual (or Periodic) Mortgage Insurance Premium

The periodic MIP is an annual MIP that is payable monthly. The amount of the annual MIP is based on the LTV ratio, Base Loan Amount and the term of the Mortgage.

Calculation of the MIP

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

3. Underwriting the Property

The Mortgagee must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured Mortgage. The appraisal and Property must comply with the requirements in Appraiser and Property Requirements for Title II Forward and Reverse Mortgages. The appraisal must be reported in accordance with Acceptable Appraisal Reporting Forms and Protocols.

a. Property Acceptability Criteria (04/18/2023)

The Mortgagee must evaluate the appraisal and any supporting documentation to determine if the Property complies with HUD's Property Acceptability Criteria. Existing and New Construction Properties must comply with Application of Minimum Property Requirements and Minimum Property Standards by Construction Status.

i. Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for Defective Conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property. The Mortgagee may only approve a Property after the Mortgagee confirms that all defects reported by the Appraiser have been corrected.

ii. Minimum Property Requirements and Minimum Property Standards

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

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

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

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, the Mortgagee may obtain an inspection from a qualified entity to make the determination. Mortgagees must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS. Mortgagees must also use professional judgment in determining when a Property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the Property, such that additional inspections and/or repairs are necessary.

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

(A) Encroachment

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

(B) Overhead Electric Power

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

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

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

(C) Access to Property

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

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

(D) Onsite Hazards and Nuisances

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

(E) Abandoned Gas and Oil Well

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

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

(F) Minimum Requirements for Living Unit

The Mortgagee must confirm that each living unit contains:

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

The Mortgagee must ensure that Appliances that are to remain and that contribute to the market value opinion are operational.

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

(G) Swimming Pools

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

(H) Structural Conditions

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

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

(I) Economic Life/Section 223(e)

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

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

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

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

(J) Environmental

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

(K) Lead-Based Paint

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

(L) Methamphetamine Contamination

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

(M) Repair Requirements

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

(N) Utility Services

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

(O) Water Supply Systems

(1) Public Water Supply System

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

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(2) Individual Water Supply Systems (Wells)

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

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

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

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

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

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

The following provides the minimum requirements for water wells:

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

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

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(3) Shared Wells

The Mortgagee must confirm that a Shared Well:

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

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe; or
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

For both New and Existing Construction, the Mortgagee must ensure that the shared well agreement complies with the guidance provided in the following table.

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

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

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority. When a well test is required, the report may not be more than 180 Days old from the Disbursement Date.

(P) Individual Residential Water Purification Systems

(1) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(2) Standard

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the system, a plan approved by the local or state health authority, and an escrow account.

(a) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The Mortgagee must obtain a certification from a local or state health authority which certifies that:

- A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of use equipment, the purification system must be employed on each water supply source (faucet) serving the Property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.

- The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.
- The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water. If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the Environmental Protection Agency (EPA) pursuant to the Safe Drinking Water Act in 40 CFR Parts 141–142.
- A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.

(b) Borrower Notice of Water Purification System

The Mortgagee must provide written notification to the Borrower that the Property has a hazardous water supply that requires treatment in order to remain safe and acceptable for human consumption. The notification to the Borrower must identify specific contaminants in the water supply serving the Property, and the related health hazard arising from the presence of those contaminants.

The Mortgagee must ensure that the Borrower has received a written estimate of the maintenance and replacement costs of the equipment necessary to ensure continuous safe drinking water.

(c) Service Contract for Individual Residential Water Purification Systems

Before mortgage closing, the Mortgagee must ensure that the Borrower has entered into a service contract with an organization or individual specifically approved by the local or state health authority to carry out the provisions of the required plan for the servicing, maintenance, repair, and replacement of the water purification equipment.

(d) Approved Plan for Individual Residential Water Purification Systems

An approved plan is a contract entered into by the Borrower and Mortgagee and approved by the local or state health authority, and that sets out conditions as described below that must be met by the parties as a condition to insurance of the Mortgage by HUD.

The plan must set forth the respective responsibilities to be assumed by the Borrower and the Mortgagee, as well as the other entities who will implement the plan, such as the health authority and the service contractor. In particular:

- The plan must set out the responsibilities of the health authority for monitoring and enforcing the performance of the service contractor, including any successor contractor that the health authority may later have occasion to name. By its approval of the plan, the health authority documents its acceptance of these responsibilities, and the plan should so indicate.
- The plan must provide for the monitoring of the operation of the water purification equipment, as well as for servicing (including disinfecting) and repairing and replacing the system as frequently as necessary, taking into consideration the system's design, anticipated use, and the type and level of contaminants present. Installation, servicing, repair, and replacement of the water purification system must be performed by an individual or organization approved for this purpose by the local or state health authority and identified in the plan. The plan must refer to specific terms and conditions of the required service contract.
- Under the plan, responsibility for monitoring the performance of the service contractor and for ensuring that the water purification system is properly serviced, repaired, and replaced rests with the local or state health authority that approved the plan. The plan must confer on the health authority all powers necessary to effect compliance by the service contractor. The health authority's powers must include the authority to notify the Borrower of any noncompliance by the service contractor. The plan must provide that upon any notification of noncompliance received from the health authority, the Borrower may discharge the service contractor for cause and appoint a successor organization or individual as service contractor.
- The Mortgagee must ensure that any plan developed in accordance with this section must provide that an analysis of the water supply must be obtained from the local or state health authority no less frequently than annually, but more frequently if determined at any time to be necessary by the health authority or by the service contractor.

The plan must provide that if the dwelling served by the water purification system is refinanced, or is sold or otherwise transferred with a HUD-insured Mortgage, the plan will:

- continue in full force and effect;
- impose an obligation on the Borrower to notify any subsequent purchaser or transferee of the necessity for the water purification system and for its proper maintenance, and of the obligation to make escrow payments; and
- require the Borrower to furnish the purchaser with a copy of the plan before any sales contract is signed.

(e) Escrow for Maintenance and Replacement of Individual Residential Water Purification Systems

The Mortgagee must establish and maintain an escrow account to ensure proper servicing, maintenance, repair, and replacement of the water purification equipment. To the extent permitted under RESPA, the amount to be collected and escrowed by the Mortgagee must be based upon information provided by the manufacturer for the maintenance and replacement of the water purification equipment and for other charges anticipated by the service contractor. The initial monthly escrow amount must be stated in the plan. Disbursements from the account will be limited to costs associated with the normal servicing, maintenance, repair, or replacement of the water purification equipment. Disbursements may only be made to the service contractor or its successor, to equipment suppliers, to the local or state health authority for the performance of testing or other required services, or to another entity approved by the health authority. The Mortgagee must maintain the escrow account as long as water purification remains necessary and the Mortgage is insured by HUD.

The Mortgagee must provide the Borrower with the Water Purification Equipment Rider for signature.

(3) Required Documentation

(a) Borrower Notice of Water Purification System

A copy of the notification statement (including cost estimates), dated before the date of the sales contract and signed by the prospective Borrower to acknowledge its receipt, must accompany the submission for insurance endorsement. If a sales contract is signed in advance of the disclosure required by this paragraph, an addendum must be executed after the information is provided to the prospective Borrower and after they have acknowledged receipt of the disclosure.

(b) Borrower's Certification of Water Purification System

At the time the application is signed, the Borrower must sign a certification acknowledging that the Property has a water purification system that must be maintained.

(c) Approved Plan for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the approved plan is provided to HUD.

(d) Service Contract for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the service contract signed by the Borrower is provided to HUD.

(e) Water Purification Equipment Rider for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the Water Purification Equipment Rider is provided to HUD.

(Q) Sewage System

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

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

(R) Termites

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

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

(S) Special Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower’s acknowledgement of the hazard.

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

iii. Minimum Required Repairs

When the appraisal report or inspection from a qualified entity indicates that repairs are required to make the Property meet HUD's MPR or MPS, the Mortgagee must comply with Repair Requirements.

If repairs for Existing Construction cannot be completed prior to closing, the Mortgagee may establish an escrow account in accordance with Repair Completion Escrow Requirements.

iv. Leased Equipment

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

Appraisal Review

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

v. Quality of Appraisal

The Mortgagee must evaluate the appraisal and ensure it complies with the requirements in Valuation and Reporting Protocols, any additional appraisal requirements that are specific to the subject Property, and all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws.

vi. Chain of Title

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

vii. Opinion of Market Value

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

viii. Reconsideration of Value

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

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

b. Required Documentation for Underwriting the Property (09/14/2015)

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

c. Conditional Commitment Direct Endorsement Statement of Appraised Value (09/14/2015)

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

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

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

a. Underwriting with an Automated Underwriting System (09/20/2021)

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

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

i. Use of TOTAL Mortgage Scorecard

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions, assumptions, Mortgages made to nonprofit/Governmental Entity Borrowers, and Mortgages made to Borrowers who do not have Social Security Numbers (SSN), but who are otherwise eligible under the Social Security Number requirements.

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

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the Final Underwriting Decision.

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

The Mortgagee must submit data to TOTAL Mortgage Scorecard through an approved AUS vendor in a data format acceptable to the AUS vendor, to meet the requirements described in the TOTAL Mortgage Scorecard Developer's Guide.

iii. Function of TOTAL Mortgage Scorecard

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

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

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

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

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

(A) Automated Underwriting System Data Entry Requirements

(1) Mortgagees

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

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

The Borrower's total Mortgage Payment includes:

- Principal and Interest (P&I);
- real estate taxes;
- Hazard Insurance;
- Flood Insurance as applicable;
- Mortgage Insurance Premium;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

The Mortgagee may deduct the amount of the Section 8 Homeownership Voucher if it is paid directly to the Servicer. Where real estate taxes are abated, Mortgagees may use the abated amount provided that (1) the Mortgagee can document the abated amount with the taxing authority and (2) the abatement will remain in place for at least the first three years of the Mortgage.

(2) Sponsored Third-Party Originators

The Mortgagee may permit a sponsored TPO to enter data into the AUS. Both the Mortgagee and its sponsored TPO must ensure and verify all data entered into the

AUS. The Mortgagee remains ultimately responsible for ensuring the data entered into the AUS is correct.

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

(B) New Versions of TOTAL Mortgage Scorecard

From time to time, FHA will release new versions of TOTAL Mortgage Scorecard. FHA will announce the date that the new version will be available. All Mortgages being scored for the first time will be scored using the new version. For Mortgages with a case number, the Mortgages will be scored using the version that was effective when the case number was assigned. Existing Mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All Mortgages without a case number will be scored using the new version 90 Days after the new version is implemented.

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

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

(A) Accept/Eligible

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

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

(B) Accept/Ineligible

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

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

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

(C) Refer

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

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

The Mortgagee must downgrade and manually underwrite any Mortgage that received an Accept recommendation if:

- the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
- additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- the Mortgage Payment history, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History;
- the Borrower has Undisclosed Mortgage Debt that requires a downgrade; or
- business income shows a greater than 20 percent decline over the analysis period.

vi. Applicability of Automated Underwriting System Rules (TOTAL)

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

vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring

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

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

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

b. Credit Requirements (TOTAL) (04/18/2023)

i. General Credit Review Requirements (TOTAL)

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

The Mortgagee must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject Property is located in a community property state.

The credit report must indicate the non-borrowing spouse’s SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse’s full name, date of birth, and previous addresses for the last two years.

ii. Credit Reports (TOTAL)

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

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

(A) Requirements for the Credit Report (TOTAL)

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

The credit report must include:

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

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

The credit report must also include:

- all inquiries made within the last 90 Days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
  - bankruptcies
  - Judgments
  - lawsuits
  - foreclosures
  - tax liens
- for each Borrower debt listed:
  - the date the account was opened
  - high credit amount
  - required payment amount
  - unpaid balance
  - payment history

(B) New Credit Report (TOTAL)

The Mortgagee must obtain a new credit report and rescore the Mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

iii. Evaluating Credit History (TOTAL)

The Mortgagee must analyze the Borrower's credit history in accordance with the Accept Risk Classifications Requiring a Downgrade to Manual Underwriting section.

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

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

The Mortgagee is not required to obtain an explanation of collection accounts, Charge Off Accounts, accounts with late payments, Judgments or other derogatory information.

(B) Disputed Derogatory Credit Accounts (TOTAL)

(1) Definition

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

(2) Standard

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgage must be downgraded to a Refer and manually underwritten.

Exclusions from cumulative balance include:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the Mortgagee must include a copy of the police report or other documentation from the creditor to support the status of the accounts.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

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

(1) Definition

Non-derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance
- disputed accounts with late payments aged 24 months or greater
- disputed accounts that are current and paid as agreed

(2) Required Documentation and Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Mortgagee is not required to downgrade the application to a Refer. However, the Mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the Mortgage. If the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

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

(D) Judgments (TOTAL)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

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

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

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The Mortgagee must include the payment amount in the agreement in the Borrower’s monthly liabilities and debt.

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

(3) Required Documentation

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

(E) Inaccuracy in Debt Considered (TOTAL)

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, the Mortgagee must:
- verify the actual monthly payment amount;
- resubmit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower’s debt increases by more than $100 per month; and
- determine that the additional debt was not/will not be used for the Borrower’s Minimum Required Investment (MRI).

(F) Bankruptcy (TOTAL)

(1) Standard

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

(2) Required Documentation

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

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

(1) Definition

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

(2) Standard

The Mortgagee must document the passage of three years since the date of the Short Sale. If the Short Sale occurred within three years of the case number assignment date, the Mortgage must be downgraded to a Refer and manually underwritten.

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

(3) Required Documentation

If the credit report does not verify the date of the transfer of title by Short Sale, the Mortgagee must obtain the Short Sale documents.

(H) Foreclosure (TOTAL)

(1) Standard

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

(2) Required Documentation

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

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

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

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

(3) Required Documentation

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

(J) Credit Counseling/Payment Plan (TOTAL)

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

No explanation or other documentation is needed.

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

(1) Definition

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

(2) Standard

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

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

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

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects:

- three or more late payments of greater than 30 Days;
- one or more late payments of 60 Days plus one or more 30-Day late payments;
- one payment greater than 90 Days late; or
- that the Borrower has made less than three consecutive payments since completion of a mortgage Forbearance Plan.

For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

A Mortgage that has been granted forbearance must utilize the payment history in accordance with the Forbearance Plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA-insured Mortgage, the Forbearance Plan must be terminated at or prior to closing. Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

(b) Cash-Out Refinance Transactions

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

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- the Borrower has made less than 12 consecutive monthly payments since completion of a mortgage forbearance plan.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

Where a Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note, the Mortgage is not required to be downgraded to a Refer provided the Forbearance Plan is terminated at or prior to closing.

(3) Required Documentation

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the agreement term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

(L) Positive Rental Payment History (TOTAL)

(1) Definitions

Positive Rental Payment History refers to the on time payment by a Borrower of all rental payments in the previous 12 months. A rental payment is considered to be on time when it is paid within the month due.

A First Time Homebuyer refers to an individual who has not held an ownership interest in another property in the three years prior to the case number assignment. First Time Homebuyer includes an individual who is divorced or legally separated and who has had no ownership interest in a Principal Residence (other than joint ownership interest with a spouse) during the three years prior to case number assignment.

(2) Standard

A Mortgagee may submit the transaction to TOTAL Mortgage Scorecard indicating a Positive Rental Payment History provided:

- the transaction is a purchase;
- at least one Borrower is identified as a First Time Homebuyer;
- the Minimum Decision Credit Score (MDCS) is 620 or greater; and
- at least one Borrower has a documented history of a Positive Rental Payment History with monthly payments of $300 or more for the previous 12 months.

(3) Required Documentation

To verify the Borrower's rental payment history, the Mortgagee must obtain a copy of the executed rental or lease agreement and one of the following:

- written verification of rent from a landlord with no Identity of Interest with the Borrower; or
- 12 months canceled rent checks; or
- 12 months bank or payment service statements documenting rents paid; or
- landlord reference from a rental management company.

Borrowers renting from a Family Member must provide a copy of the executed rental or lease agreement and 12 months canceled checks or bank statements to demonstrate the satisfactory rental payment history.

iv. Evaluating Liabilities and Debts (TOTAL)

The Mortgagee must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. The Mortgagee must also determine that any recent debts were not incurred to obtain any part of the Borrower's required funds to close on the Property being purchased.

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

(A) General Liabilities and Debts (TOTAL)

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

All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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

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

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

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

When a debt or obligation (other than a Mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, the Mortgagee must:

- verify the actual monthly payment amount;
- resubmit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than $100 per month; and

- determine that any funds borrowed were not/will not be used for the Borrower's MRI.

(C) Undisclosed Mortgage Debt (TOTAL)

When an existing debt or obligation that is secured by a Mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the Mortgagee must obtain one of the following that reflects an acceptable mortgage payment history in accordance with Housing Obligations/Mortgage Payment History (TOTAL):

- a copy of the note and either:
  - a bank statement; or
  - canceled checks;
- a credit report supplement; or
- a verification of Mortgage.

The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- more than two 30 Day late payments within 24 months of the case number assignment date.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments.

(D) Federal Debt (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(E) Alimony, Child Support, and Maintenance (TOTAL)

(1) Definition

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

(2) Standard

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

Child Support and Maintenance are to be treated as a recurring liability and the Mortgagee must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

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

The Mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.

(4) Calculation of Monthly Obligation

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

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

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

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

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

(G) Deferred Obligations (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(4) Calculation of Monthly Obligation

The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

(H) Student Loans (TOTAL)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(4) Calculation of Monthly Obligation

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

Exception

Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above $0.

(I) Installment Loans (TOTAL)

(1) Definition

Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

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

If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations section.

(J) Revolving Charge Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

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

(K) 30-Day Accounts (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

The Mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Mortgagee must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage.

(L) Contingent Liabilities (TOTAL)

(1) Definition

A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Co-signer liabilities and liabilities resulting from a mortgage assumption without release of liability.

(2) Standard

The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.

(3) Calculation of Monthly Obligation

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

(4) Required Documentation

(a) Mortgage Assumptions

The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower’s name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

(c) Court Ordered Divorce Decree or Other Court Order

The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(M) Collection Accounts (TOTAL)

(1) Definition

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

(2) Standard

If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of $2,000 or greater, the Mortgagee must:

- verify that the debt is paid in full at the time of or prior to settlement using acceptable Sources of Funds;
- verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower’s DTI; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower’s DTI.

Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law.

(3) Required Documentation

The Mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement.

If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required.

(N) Charge Off Accounts (TOTAL)

(1) Definition

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

(2) Standard

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

(O) Private Savings Clubs (TOTAL)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

(P) Business Debt in Borrower's Name (TOTAL)

(1) Definition

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

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(3) Required Documentation

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

(Q)Obligations Not Considered Debt (TOTAL)

Obligations not considered debt include:

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

- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

c. Income Requirements (TOTAL) (04/18/2023)

Effective Income Definition

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.

Effective Income Standard

Effective Income must be reasonably likely to continue through at least the first three years of the Mortgage, and meet the specific requirements described below.

i. General Income Requirements (TOTAL)

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

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

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

If FHA requires tax returns as required documentation for any type of Effective Income, the Mortgagee must also analyze the tax returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

ii. Employment Related Income (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Employment related Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document current employment using either the traditional or alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment and income:

- the most recent pay stub and a written Verification of Employment (VOE) covering two years; or
- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents.

Reverification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

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

Reverification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30 days of the date of the verification.

(3) Past Employment Documentation

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

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.

- Only base pay is used to qualify (no Overtime, Bonus, or Tip Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

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

- W-2(s);
- written VOE(s);
- direct electronic verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and/or
- evidence supporting enrollment in school or the military during the most recent two full years.

iii. Primary Employment (TOTAL)

(A) Definitions

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

COVID-19 Related Economic Event refers to temporary loss of employment, temporary reduction of income, or temporary reduction of hours worked during the Presidentially-Declared COVID-19 National Emergency.

(B) Standard

The Mortgagee may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

(a) Standard

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

(b) Exception Due to COVID-19 Related Economic Event

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

(2) Hourly

(a) Standard

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

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

(b) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Hourly Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income earned since the COVID-19 Related Economic Event.

iv. Part-Time Employment (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Calculation of Effective Income

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

(D) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Calculation of Effective Income section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of income earned since the COVID-19 Related Economic Event.

v. Overtime, Bonus, or Tip Income (TOTAL)

(A) Definition

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

(B) Standard

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

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

(C) Calculation of Effective Income

(1) Standard

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus, or Tip Income has been earned; or
- the average Overtime, Bonus, or Tip Income earned over the previous year.

(2) Exception Due to COVID-19 Related Economic Event

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Overtime, Bonus, or Tip Income Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average Overtime, Bonus, or Tip Income earned since the COVID-19 Related Economic Event.

vi. Seasonal Employment (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

(D) Calculation of Effective Income

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

vii. Employer Housing Subsidy (TOTAL)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

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

(D) Calculation of Effective Income

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

viii. Employed by Family-Owned Business (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

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

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

(D) Calculation of Effective Income

(1) Salary

(a) Standard

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

(b) Exception Due to COVID-19 Related Economic Event

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

(2) Hourly

(a) Standard

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

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

(b) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Hourly Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income earned since the COVID-19 Related Economic Event.

ix. Commission Income (TOTAL)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

(D) Calculation of Effective Income

(1) Standard

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- the average Commission Income earned over either:
  - the previous two years; or
  - the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

(2) Exception Due to COVID-19 Related Economic Event

For employees with Commission Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Commission Income Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the Commission Income earned since the COVID-19 Related Economic Event.

x. Self-Employment Income (TOTAL)

(A) Definition

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

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade and manually underwrite.

(3) Exception Due to COVID-19 Related Economic Event

The Mortgagee may consider Self-Employment Income if the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two years.

If the Borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level less than 80 percent of their income prior to the COVID-19 Related Economic Event, the Mortgagee must downgrade and manually underwrite.

(C) Required Documentation

(1) Individual and Business Tax Returns

The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

The Mortgagee must obtain the Borrower's business tax returns for the most recent two years unless the following criteria are met:

- individual federal income tax returns show increasing Self-Employment Income over the past two years;
- funds to close are not coming from business accounts; and
- the Mortgage to be insured is not a cash-out refinance.

In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

(3) Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a reduction of income due to a COVID-19 Related Economic Event, the Mortgagee must provide the following documentation in addition to the current Self-Employment Income required documentation:

- letter of explanation for the time period of income loss or reduction;
- the Borrower's business tax returns for the most recent two years; and
- either of the following:
  - an audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
  - an unaudited year-to-date P&L statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L.

(D) Calculation of Effective Income

(1) Standard

The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms.

The Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over either:
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or

- the average gross Self-Employment Income earned over the previous one year.

(2) Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a COVID-19 Related Economic Event that have since regained income at a level greater than or equal to 80 percent of their income prior to the COVID-19 Related Economic Event for a minimum of six months, the Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years prior to the COVID-19 Related Economic Event; or
- the average gross Self-Employment Income earned over the previous six months after the COVID-19 Related Economic Event.

xi. Additional Required Analysis of Stability of Employment Income (TOTAL)

(A) Frequent Changes in Employment

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current line of work for at least six months at the time of case number assignment; and
- a two-year work history prior to the absence from employment using standard or alternative employment verification.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;

- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Mortgagee may use the Borrower's pre-leave income as Effective Income.

For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income as Effective Income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through intended date of return to work with current employer.

(D) Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event

(1) Non-Self-Employment Income

For Borrowers with gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may consider the Borrower's income calculated in accordance with the Exception Due to COVID-19 Related Economic Event for the applicable income type as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job or same line of work for at least one month at the time of case number assignment; or

- the Borrower has been employed in a different job or line of work for at least six months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment, using traditional or alternative employment verification.

Required Documentation

The Lender must provide the following documentation for the Borrower to verify:

- written VOE identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

(2) Self-Employment Income

For Borrowers with gaps in self-employment, reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment in accordance with Exception Due to COVID-19 Related Economic Event.

xii. Other Sources of Effective Income (TOTAL)

(A) Disability Benefits (TOTAL)

(1) Definition

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

(2) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(a) Social Security Disability

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

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

(b) VA Disability

For VA disability benefits, the Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

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

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

For private disability benefits, the Mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

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

(3) Calculation of Effective Income

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

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

(1) Definition

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

(2) Required Documentation

The Mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the Mortgagee must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The Mortgagee must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or tax returns.

The Mortgagee must provide evidence that the claimed income will continue for at least three years. The Mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.

If the Alimony, Child Support, and Maintenance Income have not been consistently received for the most recent three months if court ordered or six months if voluntary, the Mortgagee must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support, and Maintenance Income have been received for less than two years, the Mortgagee must use the average over the time of receipt.

(C) Military Income (TOTAL)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Mortgagee may not use military education benefits as Effective Income.

(2) Required Documentation

The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(3) Calculation of Effective Income

The Mortgagee must use the current amount of Military Income received to calculate Effective Income.

(D) Mortgage Credit Certificates (TOTAL)

(1) Definition

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Homeownership Vouchers.

(2) Required Documentation

The Mortgagee must verify and document the amount of the tax rebate.

(3) Calculating Effective Income

Mortgage Credit Certificate income may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(E) Section 8 Homeownership Vouchers (TOTAL)

(1) Definition

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(2) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Mortgagee may consider that this income is reasonably likely to continue for three years.

(3) Calculation of Effective Income

The Mortgagee may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (TOTAL)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

Mortgagees must verify and document the income received from the government agency.

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

(3) Calculation of Effective Income

The Mortgagee must use the current rate of Public Assistance received to calculate Effective Income.

(G) Automobile Allowances (TOTAL)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

The Mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.

(3) Calculation of Effective Income

The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income.

(H) Retirement Income (TOTAL)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (TOTAL)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, the Mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

In addition to verification of income, the Mortgagee must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the

Borrower's eligibility for SSA income or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee must consider the income effective and reasonably likely to continue. The Mortgagee may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

The Mortgagee must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (TOTAL)

(a) Definition

Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

The Mortgagee must use the current amount of Pension income received to calculate Effective Income.

(3) Individual Retirement Account and 401(k) (TOTAL)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The Mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

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

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

(I) Rental Income (TOTAL)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(2) Rental Income Received from the Subject Property (TOTAL)

(a) Standard

The Mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

No income from commercial space may be included in Rental Income calculations.

(b) Required Documentation

Documentation varies depending upon the length of time the Borrower has owned the Property.

***(i)* Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*; Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*; and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.

***(ii)* History of Rental Income**

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the Mortgagee must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years.

For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document.

(c) Calculation of Effective Income

The Mortgagee must add the net subject property Rental Income to the Borrower's gross income to calculate Effective Income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

***(i)* Limited or No History of Rental Income**

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must use the lesser of:

- the monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or
- 75 percent of the lesser of:
  - fair market rent reported by the Appraiser; or
  - the rent reflected in the lease or other rental agreement.

***(ii)* History of Rental Income**

The Mortgagee must calculate the Rental Income by averaging the amount shown on Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (TOTAL)

(a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

(b) Required Documentation

***(i)* Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

One Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.

***(ii)* History of Rental Income**

The Mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

***(i)* Limited or No History of Rental Income**

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

- the monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or
- 75 percent of the lesser of:
  - fair market rent reported by the Appraiser; or
  - the rent reflected in the lease or other rental agreement.

***(ii)* History of Net Rental Income**

The Mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.

Depreciation shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

(4) Boarders of the Subject Property (TOTAL)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

(c) Required Documentation

The Mortgagee must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, the Mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

The Mortgagee must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(J) Investment Income (TOTAL)

(1) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(2) Required Documentation

The Mortgagee must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

The Mortgagee must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The Mortgagee must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

(K) Capital Gains and Losses (TOTAL)

(1) Definition

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

(2) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(3) Required Documentation

Three years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(L) Expected Income (TOTAL)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. The Mortgagee must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(M) Trust Income (TOTAL)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

The Mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The Mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The Mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

(3) Calculation of Effective Income

The Mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(N) Annuities or Similar (TOTAL)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

The Mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Mortgage. The Mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

(3) Calculation of Effective Income

The Mortgagee must use the current rate of the annuity to calculate Effective Income.

The Mortgagee must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.

(O) Notes Receivable Income (TOTAL)

(1) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

(2) Required Documentation

The Mortgagee must verify and document the existence of the Note. The Mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or canceled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(P) Nontaxable Income (Grossing Up) (TOTAL)

(1) Definition

Nontaxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;

- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Homeownership Vouchers;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

The Mortgagee must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

The amount of continuing tax savings attributed to Nontaxable Income may be added to the Borrower's gross income.

The percentage of Nontaxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the Mortgagee may Gross Up the Nontaxable Income by 15 percent.

The Mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

(Q) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:
- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

d. Asset Requirements (TOTAL) (04/18/2023)

i. General Asset Requirements (TOTAL)

The Mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied toward the Borrower's MRI.

(A) Earnest Money Deposit (TOTAL)

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:
- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct electronic verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Gifts (Personal and Equity) (TOTAL).

(B) Cash to Close (TOTAL)

The Mortgagee must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

The Mortgagee must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

The Mortgagee or sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs and prepaid items necessary to close the Mortgage. Charges may not exceed the actual costs.

The Mortgagee must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19.

(b) Discount Points

Discount Points refer to a charge from the Mortgagee for the interest rate chosen. They can be paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.

(d) Non-realty or Personal Property

Non-realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

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

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid items; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

(i) Interested Party Contributions on the Closing Disclosure

The Mortgagee may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items Paid Outside Closing (POC), prepaid items, and Discount Points.

The refund of the Borrower's POCs may be used toward the Borrower's MRI if the Mortgagee documents that the POCs were paid with the Borrower's own funds.

The Mortgagee must identify the total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum. The Mortgagee must identify each item paid by Interested Party Contributions.

(j) Real Estate Tax Credits

Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

(C) Reserves (TOTAL)

The Mortgagee must verify and document all assets submitted to the AUS.

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- equity in another Property; or
- borrowed funds from any source.

Required Reserves for Three- to Four-Unit Properties

The Mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (TOTAL)

(A) Definition

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

(B) Standard

The Mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

(1) the seller of the Property;
(2) any other person or entity who financially benefits from the transaction (directly or indirectly); or
(3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

While additional funds to close may be provided by one of these sources if permitted under the relevant requirements above, none of the Borrower's MRI may come from these sources. The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with Prohibited Sources of Minimum Cash Investment Under the National Housing Act – Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Governmental Entity is originating the insured Mortgage through one of its homeownership programs.

(C) Required Documentation

Where the Borrower's MRI is provided by someone other than the Borrower, the Mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the Mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to the Mortgagee to fund the Borrower's MRI.

The Mortgagee must obtain:

- a canceled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided toward the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided toward the Borrower's MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds toward the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds toward the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds toward the Borrower's MRI.

While the Mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

iii. Sources of Funds (TOTAL)

The Mortgagee must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (TOTAL)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or

- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

(b) Alternative Documentation

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Mortgagee must obtain statement(s) for the most recent two months.

(B) Cash on Hand (TOTAL)

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

(3) Required Documentation

The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

(C) Retirement Accounts (TOTAL)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

The Mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(3) Required Documentation

The Mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(D) Stocks and Bonds (TOTAL)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

The Mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the Mortgagee must determine the current value of the stocks and bonds through TPV. Government-issued savings bonds are valued at the original purchase price, unless the Mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the Mortgagee must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs (TOTAL)

(1) Definition

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

(2) Standard

The Mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The Mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

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

(F) Gifts (Personal and Equity) (TOTAL)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization;
- a governmental agency or public entity that has a program providing homeownership assistance to:
  - low or moderate income families; or
  - first-time homebuyers.

Any Gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(b) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the Gift.

c. For Gifts of land, obtain proof of ownership by the donor and evidence of the transfer of title to the Borrower.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from an Interested Party.

The Mortgagee and its Affiliates are prohibited from loaning funds to the donor who will use them as gift funds unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

(b) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor’s name, address, and telephone number;
- the donor’s relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

(G) Interested Party Contributions (TOTAL)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower’s origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower’s origination fees, other closing costs, prepaid items, and Discount Points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, prepaid items, and Discount Points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower’s MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit, provided the Mortgagee or TPO is not the seller, real estate agent, builder, or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (TOTAL)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;
- contributions exceeding the origination fees, other closing costs, prepaid items, and Discount Points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (TOTAL)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (TOTAL)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (TOTAL)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent pro-rated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Downpayment Assistance Programs (TOTAL)

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off:

- Installment Loans
- credit cards
- collections

- Judgments
- liens
- similar debts

The Mortgagee must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower's downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment provided that:

- the Gift is made to the Borrower;
- the Gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The Mortgagee is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (TOTAL)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt.

(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL)

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's MRI;
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The Mortgagee must enter information on HUD-approved Nonprofits into FHA Connection (FHAC), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the Mortgage and Note; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first Mortgage;
  - the complete property address;
  - the name, address and Tax ID for the nonprofit;
  - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
  - the amount and purpose for the secondary financing provided to the Borrower; and
  - a statement indicating whether the secondary financing:
    - will close in the name of the Governmental Entity; or
    - will be closed in the name of the nonprofit and held by the Governmental Entity.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Where a nonprofit meets the criteria identified in Section 115 of the IRC for exclusion of taxation, the nonprofit must provide one of the following:

- a letter from the organization's auditor;
- a written statement from the organization's General Counsel, as an official of the organization;

- a determination or ruling letter issued by the IRS; or
- an equivalent document evidencing Section 115 status.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (TOTAL)

(a) Definition

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

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

(3) Family Members (TOTAL)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;
- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the:
  - seller;
  - builder;
  - loan originator; or
  - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the Mortgage and Note.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee.

(4) Private Individuals and Other Organizations (TOTAL)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the Nationwide Mortgage Limits;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the Mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

(K)Loans (TOTAL)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (TOTAL)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(d) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (TOTAL)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

The Mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

The Mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (TOTAL)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA-insured Mortgage, and meet the requirements for Secondary Financing Provided by Governmental Entities and HOPE Grantees.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

The Mortgagee must verify and document the promissory Note.

(L) Grants (TOTAL)

(1) Disaster Relief Grants (TOTAL)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (TOTAL)

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a Gift or grant even if it does not require regular payments or has other features forgiving the debt.

(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(c) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

The Mortgagee must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;

- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (TOTAL)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (TOTAL)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(2) Standard

The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Home (TOTAL)

(1) Definition

Trade-In of Manufactured Home refers to the Borrower’s sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower’s source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

The Mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The Mortgagee must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (TOTAL)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document.

The Mortgagee must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the Net Sale Proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (TOTAL)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

Mortgagees may consider Real Estate Commissions from the Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

(3) Required Documentation

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from Sale of Subject Property being purchased.

(R) Sweat Equity (TOTAL)

(1) Definition

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased.

(2) Standard

The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower's MRI.

The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The Mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

(3) Required Documentation

For materials furnished, the Mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the Mortgagee must verify and document that the work will be completed in a satisfactory manner. The Mortgagee must also obtain evidence of Contributory Value of the labor either through an Appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the Mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible.)
- For labor on New Construction, the Mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

(S) Trade Equity (TOTAL)

(1) Definition

Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment.

(2) Standard

The amount of the Borrower's equity contribution is determined by:
- using the lesser of the Property's appraised value or sales price; and
- subtracting all liens against the Property being traded, along with any real estate commission.

If the Property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply.

(3) Required Documentation

The Mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the Property's value. The Mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the Property.

(T) Rent Credits (TOTAL)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

The Mortgagee may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MRI.

(3) Required Documentation

The Mortgagee must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

e. Final Underwriting Decision (TOTAL) (09/14/2015)

The Mortgagee may approve the Mortgage as eligible for FHA insurance endorsement if:
- TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- the underwriter underwrote the appraisal according to standard FHA requirements;
- the Mortgagee reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate; and
- the Mortgage meets all FHA requirements applicable to Mortgages receiving a rating of Accept from TOTAL Mortgage Scorecard.

While TOTAL Mortgage Scorecard is available for Mortgagees to use in their pre-qualification process of mortgage applicants, the Mortgagee must score the Mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessment nor will information be carried from TOTAL Mortgage Scorecard to FHAC for endorsement processing, without an FHA case number. It is imperative that the Mortgagees make certain that they enter the FHA case number into their Loan Origination System or AUS as soon as it is known. This will ensure a more efficient endorsement process.

i. Documentation of Final Underwriting Review Decision (TOTAL)

The Mortgagee must complete the following documents to evidence their final underwriting decision.

(A) Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

On form HUD-92900-LT, the Mortgagee must:

- indicate the CHUMS ID of the underwriter who reviewed the appraisal;
- complete the Risk Assessment; and
- enter the identification of “ZFHA” in the CHUMS ID.

When the Feedback Certificate indicates “Accept/Ineligible,” the Mortgagee must document the circumstances or other reasons that were evaluated in making the decision to approve the Mortgage in the Remarks section.

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

The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.

(C) Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*

The Mortgagee must complete form HUD-92900-A as directed in the form instructions.

An authorized officer of the Mortgagee, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

ii. Conditional Approval (TOTAL)

The Mortgagee must condition the approval of the Borrower on the completion of the final *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-A.

iii. HUD Employee Mortgages (TOTAL)

If the Mortgage involves a HUD employee, the Mortgagee must condition the Mortgage on its approval by HUD. The Mortgagee must submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

iv. Notification of Borrower of Approval and Term of the Approval (TOTAL)

The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

5. Manual Underwriting of the Borrower

The Mortgagee must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

If a Mortgage receiving the AUS Refer or downgrade to manual processing involves a HUD employee, the Mortgagee must underwrite the transaction in accordance with the guidance in this Manual Underwriting section. The Mortgagee must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

a. Credit Requirements (Manual) (04/18/2023)

i. General Credit Requirements (Manual)

FHA's general credit policy requires Mortgagees to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

The Mortgagee must either obtain a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

The Mortgagee must utilize the same credit report and credit scores sent to TOTAL.

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

The Mortgagee must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject Property is located in a community property state. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

The Mortgagee is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

ii. Types of Credit History (Manual)

If a traditional credit report is available, the Mortgagee must use a traditional credit report. However, if a traditional credit report is not available, the Mortgagee must develop the Borrower's credit history using the requirements for Non-traditional and Insufficient Credit.

(A) Traditional Credit (Manual)

If the TRMCR or RMCR generates a credit score, the Mortgagee must utilize traditional credit history.

(1) Requirements for the Credit Report

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

The credit report must include:

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

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

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
  - bankruptcies;
  - Judgments;
  - lawsuits;
  - foreclosures; and
  - tax liens; and
- for each Borrower debt listed:
  - the date the account was opened;
  - high credit amount;
  - required monthly payment amount;
  - unpaid balance; and
  - payment history.

(2) Updated Credit Report or Supplement to the Credit Report

The Mortgagee must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

(3) Credit Information Not Listed on Credit Report

A Mortgagee must develop credit information separately for any open debt listed on the mortgage application but not referenced in the credit report by using the procedures for Independent Verification of Non-traditional Credit Providers.

(4) Specific Requirements for Residential Mortgage Credit Report

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

(B) Non-traditional and Insufficient Credit (Manual)

For Borrowers without a credit score, the Mortgagee must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below.

(1) Non-Traditional Mortgage Credit Report

(a) Definition

A Non-Traditional Mortgage Credit Report (NTMCR) refers to a type of credit report designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report.

(b) Standard

An NTMCR is used either as:

- a substitute for a TRMCR or an RMCR; or
- a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

Mortgagees may use an NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the Borrower; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the:

- creditor's name;
- date of opening;
- high credit;
- current status of the account;
- 12-month history of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

(2) Independent Verification of Non-traditional Credit Providers

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

a. To verify the existence of each credit provider, the Mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.

b. To verify credit information, the Mortgagee must:
   - use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
   - obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

c. To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(3) Sufficiency of Credit References

To be sufficient to establish the Borrower's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - internet service.

If the Mortgagee cannot obtain all three credit references from the list above, the Mortgagee may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- rent-to-own (for example, furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
  - were made at least quarterly;
  - were not payroll deducted, and;
  - caused no Insufficient Funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

iii. Evaluating Credit History (Manual)

(A) General Credit (Manual)

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

The Mortgagee must not consider the credit history of a non-borrowing spouse.

(B) Types of Payment Histories (Manual)

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) Revolving Charge Accounts.

(1) Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on Revolving Charge Accounts in the previous 12 months.

Major derogatory credit on Revolving Charge Accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

(2) Payment History Requiring Additional Analysis

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The Mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(C) Housing Obligations/Mortgage Payment History (Manual)

(1) Definition

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

(2) Standard

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

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

The Mortgagee must determine the Borrower's Housing Obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Mortgage received directly from the Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee must verify and document the previous 12 months' housing history. For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.

For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

A Mortgage that was subject to mortgage payment forbearance must utilize the Mortgage Payment history in accordance with the Forbearance Plan for the time period of the forbearance in determining late housing payments.

Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

(3) Required Documentation

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

(D) Collection Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must determine if collection accounts were a result of:
- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a Mortgage when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

(E) Charge Off Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must determine if Charge Off Accounts were a result of:
- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

The Mortgagee must document reasons for approving a Mortgage when the Borrower has any Charge Off Accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.

(F) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

(3) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(G) Judgments (Manual)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

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

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

Regardless of the amount of outstanding Judgments, the Mortgagee must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

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

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

(3) Required Documentation

The Mortgagee must provide the following documentation:

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

(H) Bankruptcy (Manual)

(1) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Mortgage if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time, the Borrower must have:

- reestablished good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(2) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Mortgage, if at the time of case number assignment at least 12 months of the payout period under the bankruptcy has elapsed.

The Mortgagee must determine that during this time, the Borrower's payment performance has been satisfactory and all required payments have been made on time; and the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

(3) Required Documentation

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

The Mortgagee must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(I) Foreclosure and Deed-in-Lieu of Foreclosure (Manual)

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if the Borrower had a foreclosure or a DIL of Foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing entity/designee.

Exceptions

The Mortgagee may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has reestablished good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the

Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Mortgagee must obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Mortgagee must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(J) Pre-Foreclosure Sales (Short Sales) (Manual)

(1) Definition

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

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if they relinquished a Property through a Short Sale within three years from the date of case number assignment.

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

(a) Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(b) Exception for Extenuating Circumstances

The Mortgagee may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has reestablished good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the Short Sale, the Mortgagee must obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.

If the Short Sale was the result of a circumstance beyond the Borrower's control, the Mortgagee must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.

(K) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Mortgage, provided the Mortgagee documents that:
- one year of the payout period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the mortgage transaction.

iv. Evaluating Liabilities and Debts (Manual)

(A) General Liabilities and Debts (Manual)

(1) Standard

The Mortgagee must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *URLA*, and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

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

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

(2) Required Documentation

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

(B) Undisclosed Debt and Inquiries (Manual)

(1) Standard

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the Mortgagee must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's MRI.

The Mortgagee must obtain a written explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days.

(2) Required Documentation

The Mortgagee must document all undisclosed debt and support for its analysis of the Borrower's debt.

(C) Federal Debt (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

(D) Alimony, Child Support, and Maintenance (Manual)

(1) Definition

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

(2) Standard

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

Child Support and Maintenance are to be treated as a recurring liability and the Mortgagee must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

The Mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

The Mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.

(4) Calculation of Monthly Obligation

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

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

(E) Non-Borrowing Spouse Debt in Community Property States (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

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

The Mortgagee must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be counted in the DTI ratio.

(F) Deferred Obligations (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must verify and include deferred obligations in the calculation of the Borrower's liabilities.

(3) Required Documentation

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

(4) Calculation of Monthly Obligation

The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

(G) Student Loans (Manual)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment amount from the monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(4) Calculation of Monthly Obligation

For outstanding Student Loans, regardless of the payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

Exception

Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above $0.

(H) Installment Loans (Manual)

(1) Definition

Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

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

If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations section.

(I) Revolving Charge Accounts (Manual)

(1) Definition

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

(2) Standard

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

(3) Required Documentation

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

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

(J) 30-Day Accounts (Manual)

(1) Definition

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

(2) Standard

The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

The Mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Mortgagee must use the credit report to document the balance, and must document that funds are available to pay off the balance, in excess of the funds and Reserves required to close the Mortgage.

(K) Business Debt in Borrower's Name (Manual)

(1) Definition

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

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(3) Required Documentation

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

(L) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

(2) Standard

If the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgagee must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.

(M) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report (Manual)

(1) Definition

Non-derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;
- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(2) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(N) Contingent Liabilities (Manual)

(1) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Co-signer liabilities and liabilities resulting from a mortgage assumption without release of liability.

(2) Standard

The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Mortgagee verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.

(3) Required Documentation

(a) Mortgage Assumptions

The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.

(c) Court Ordered Divorce Decree or Other Court Order

The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(4) Calculation of Monthly Obligation

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

(O) Collection Accounts (Manual)

(1) Definition

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

(2) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of $2,000 or greater, the Mortgagee must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;
- verify that the Borrower has made payment arrangements with the creditor; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.

Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless specifically excluded by state law.

(3) Required Documentation

The Mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement.

If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required.

(P) Charge Off Accounts (Manual)

(1) Definition

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

(2) Standard

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

(Q) Private Savings Clubs (Manual)

(1) Definition

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

(2) Standard

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

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

(3) Required Documentation

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

(R) Obligations Not Considered Debt

Obligations not considered debt include:

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

- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

b. Income Requirements (Manual) (04/18/2023)

Effective Income Definition

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.

Effective Income Standard

Effective Income must be reasonably likely to continue through at least the first three years of the Mortgage, and meet the specific requirements described below.

i. General Income Requirements (Manual)

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

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

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

If FHA requires tax returns as required documentation for any type of Effective Income, the Mortgagee must also analyze the tax returns in accordance with Appendix 2.0 – Analyzing IRS Forms.

ii. Employment Related Income (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Employment related Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document current employment using either the traditional or alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

The Mortgagee must obtain one of the following to verify current employment and income:

- the most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or biweekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and a written Verification of Employment (VOE) covering two years; or
- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents.

Reverification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30 days of the date of the verification.

(2) Alternative Current Employment Documentation

If using alternative documentation, the Mortgagee must:

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

Reverification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic reverification of employment is acceptable. Electronic reverification employment data must be current within 30 days of the date of the verification.

(3) Past Employment Documentation

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

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime, Bonus, or Tip Income).
- The Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

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

- W-2(s);
- written VOE(s);
- direct verification of employment by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and/or
- evidence supporting enrollment in school or the military during the most recent two full years.

iii. Primary Employment (Manual)

(A) Definitions

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

COVID-19 Related Economic Event refers to temporary loss of employment, temporary reduction of income, or temporary reduction of hours worked during the Presidentially-Declared COVID-19 National Emergency.

(B) Standard

The Mortgagee may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

(a) Standard

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

(b) Exception Due to COVID-19 Related Economic Event

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

(2) Hourly

(a) Standard

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

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

(b) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Hourly Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income since the COVID-19 Related Economic Event.

iv. Part-Time Employment (Manual)

(A) Definition

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

(B) Standard

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

(C) Calculation of Effective Income

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

(D) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Calculation of Effective Income section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of income earned since the COVID-19 Related Economic Event.

v. Overtime, Bonus, or Tip Income (Manual)

(A) Definition

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

(B) Standard

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

Periods of Overtime, Bonus, or Tip Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime, Bonus, or Tip

Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(C) Calculation of Effective Income

(1) Standard

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate Effective Income by using the lesser of:

- the average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus, or Tip Income has been earned; or
- the average Overtime, Bonus, or Tip Income earned over the previous year.

(2) Exception Due to COVID-19 Related Economic Event

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Overtime, Bonus, or Tip Income Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average Overtime, Bonus, or Tip Income earned since the COVID-19 Related Economic Event.

vi. Seasonal Employment (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

(D) Calculation of Effective Income

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

vii. Employer Housing Subsidy (Manual)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

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

(D) Calculation of Effective Income

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

viii. Employed by Family-Owned Business (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

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

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

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

(D) Calculation of Effective Income

(1) Salary

(a) Standard

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

(b) Exception Due to COVID-19 Related Economic Event

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

(2) Hourly

(a) Standard

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

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

(b) Exception Due to COVID-19 Related Economic Event

For employees who are paid hourly and whose hours do not vary, the Mortgagee must use the current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with the Hourly Standard section above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the income for the time period since the COVID-19 Related Economic Event.

ix. Commission Income (Manual)

(A) Definition

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

(B) Standard

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

(C) Required Documentation

For all Commission Income, the Mortgagee must use traditional or alternative employment documentation.

(D) Calculation of Effective Income

(1) Standard

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- the average Commission Income earned over either:
  - the previous two years; or
  - the length of time Commission Income has been earned if less than two years; or
- the average Commission Income earned over the previous year.

(2) Exception Due to COVID-19 Related Economic Event

For employees with Commission Income, the Mortgagee must calculate the Effective Income by using the lesser of:

- the average of the income in accordance with Commission Income Standard above for the time period prior to the COVID-19 Related Economic Event; or
- the average of the Commission Income for the time period since the COVID-19 Related Economic Event.

x. Self-Employment Income (Manual)

(A) Definition

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

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.

If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

(2) Stability of Self-Employment Income

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must document that the business income is now stable.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

(3) Exception Due to COVID-19 Related Economic Event

The Borrower must have an aggregate two-year self-employment history before and after the COVID-19 Related Economic Event.

If the Borrower has an aggregate self-employment history between one and two years before and after the COVID-19 Related Economic Event, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of a COVID-19 Related Economic Event and the Borrower can demonstrate the income has been stable or increasing for a minimum of six months, and the Borrower qualifies utilizing the reduced income.

(C) Required Documentation

(1) Individual and Business Tax Returns

The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax return obtained from the IRS is required.

(3) Business Credit Reports

The Mortgagee must obtain a business credit report for all corporations and "S" corporations.

(4) Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a reduction of income due to a COVID-19 Related Economic Event, the Mortgagee must provide the following documentation in addition to the current Self-Employment Income required documentation:

- letter of explanation for the time period of income loss or reduction;
- the Borrower's business tax returns for the most recent two years; and
- either of the following:
  - an audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
  - an unaudited year-to-date P&L statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L.

(D) Calculation of Effective Income

(1) Standard

The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms.

The Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self- Employment Income earned over either:
  - the previous two years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
- the average gross Self-Employment Income earned over the previous one year.

(2) Exception Due to COVID-19 Related Economic Event

For self-employed Borrowers with a COVID-19 Related Economic Event who have since regained income at a level greater than or equal to 80 percent of their income prior to the COVID-19 Related Economic Event for a minimum of six months, the Mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years prior to the COVID-19 Related Economic Event; or
- the average gross Self-Employment Income earned over the previous six months after the COVID-19 Related Economic Event.

xi. Additional Required Analysis of Stability of Employment Income (Manual)

(A) Frequent Changes in Employment

If the Borrower has changed employers more than three times in the previous 12-month period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). The Mortgagee must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current line of work for at least six months at the time of case number assignment; and
- a two-year work history prior to the absence from employment using standard or alternative employment verification.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Mortgagee may use the Borrower's pre-leave income as Effective Income.

For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income as Effective Income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and

- documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through intended date of return to work with current employer.

(D) Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event

(1) Non-Self-Employment Income

For Borrowers with gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job or same line of work for at least one month at the time of case number assignment; or
- the Borrower has been employed in a different job or line of work for at least six months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment using traditional or alternative employment verification.

Required Documentation

The Lender must provide the following documentation to verify:

- written VOE identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

(2) Self-Employment Income

For Borrowers with gaps in self-employment, a reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the Mortgagee may exclude the months where the business was closed, or income was reduced when calculating Effective Income. The total time period of the Borrower's self-employment must still meet the minimum length of self-employment in accordance with Exception Due to COVID-19 Related Economic Event.

xii. Other Sources of Effective Income (Manual)

(A) Disability Benefits (Manual)

(1) Definition

Disability Benefits refer to benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

(2) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

(a) Social Security Disability (Manual)

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

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

(b) VA Disability

For VA disability benefits, the Mortgagee must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents:

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

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

For private disability benefits, the Mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:

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

(3) Calculation of Effective Income

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

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

(1) Definition

Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a noncustodial parent of the Borrower's minor dependent.

(2) Required Documentation

The Mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the Mortgagee must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The Mortgagee must document the voluntary payment agreement with 12 months of canceled checks, deposit slips, or tax returns.

The Mortgagee must provide evidence that the claimed income will continue for at least three years. The Mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) Calculation of Effective Income

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support, and Maintenance

Income for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support, and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.

If the Alimony, Child Support, and Maintenance Income have not been consistently received for the most recent three months if court ordered or six months if voluntary, the Mortgagee must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support, and Maintenance Income have been received for less than two years, the Mortgagee must use the average over the time of receipt.

(C) Military Income (Manual)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Mortgagee may not use education benefits as Effective Income.

(2) Required Documentation

The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

(3) Calculation of Effective Income

The Mortgagee must use the current amount of Military Income received to calculate Effective Income.

(D) Mortgage Credit Certificates (Manual)

(1) Definition

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Homeownership Vouchers.

(2) Required Documentation

The Mortgagee must verify and document the amount of the tax rebate.

(3) Calculating Effective Income

Mortgage Credit Certificate income may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(E) Section 8 Homeownership Vouchers (Manual)

(1) Definition

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

(2) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Mortgagee may consider that this income is reasonably likely to continue for three years.

(3) Calculation of Effective Income

The Mortgagee may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

(F) Other Public Assistance (Manual)

(1) Definition

Public Assistance refers to income received from government assistance programs.

(2) Required Documentation

Mortgagees must verify and document the income received from the government agency.

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

(3) Calculation of Effective Income

The Mortgagee must use the current rate of Public Assistance received to calculate Effective Income.

(G) Automobile Allowances (Manual)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

The Mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.

(3) Calculation of Effective Income

The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income.

(H) Retirement Income (Manual)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (Manual)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, the Mortgagee must obtain any one of the following documents:

- federal tax returns;

- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's SSA Form-1099/1042S, *Social Security Benefit Statement*.

In addition to verification of income, the Mortgagee must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee must consider the income effective and reasonably likely to continue. The Mortgagee may not request additional documentation from the Borrower to demonstrate continuance of Social Security Income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

The Mortgagee must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (Manual)

(a) Definition

Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Mortgagee must obtain any one of the following documents:

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

- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

The Mortgagee must use the current amount of Pension income received to calculate Effective Income.

(3) Individual Retirement Account and 401(k) (Manual)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The Mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

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

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

(I) Rental Income (Manual)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(2) Rental Income Received from the Subject Property (Manual)

(a) Standard

The Mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

No income from commercial space may be included in Rental Income calculations.

(b) Required Documentation

Required documentation varies depending upon the length of time the Borrower has owned the Property.

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

Two-to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

One Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.

(ii) History of Rental Income

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the Mortgagee must verify and document the existing Rental Income by obtaining the existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and the Borrower's most recent tax returns, including Schedule E, from the previous two years.

For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure or other legal document.

(c) Calculation of Effective Income

The Mortgagee must add the net subject property Rental Income to the Borrower's gross income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

***(i)* Limited or No History of Rental Income**

To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Mortgagee must use the lesser of:

- the monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or
- 75 percent of the lesser of:
  - fair market rent reported by the Appraiser; or
  - the rent reflected in the lease or other rental agreement.

***(ii)* History of Rental Income**

The Mortgagee must calculate the Rental Income by averaging the amount shown on the Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (Manual)

(a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

(b) Required Documentation

***(i)* Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income for the Property since the previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

One Unit

The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.

***(ii)* History of Rental Income**

The Mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

***(i)* Limited or No History of Rental Income**

To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the PITI from the lesser of:

- the monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or
- 75 percent of the lesser of:

- fair market rent reported by the Appraiser; or
- the rent reflected in the lease or other rental agreement.

***(ii)* History of Net Rental Income**

The Mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.

Depreciation shown on Schedule E may be added back to the net income or loss.

If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Closing Disclosure or other legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

(4) Boarders of the Subject Property (Manual)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

(c) Required Documentation

The Mortgagee must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, the Mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

The Mortgagee must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(J) Investment Income (Manual)

(1) Definition

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

(2) Required Documentation

The Mortgagee must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

(3) Calculation of Effective Income

The Mortgagee must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The Mortgagee must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

(K)Capital Gains and Losses (Manual)

(1) Definition

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

(2) Standard

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

(3) Required Documentation

Three years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as Effective Income; or
- consistently shows a loss, it must be deducted from the total income.

(L) Expected Income (Manual)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. The Mortgagee must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(M) Trust Income (Manual)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

The Mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The Mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The Mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

(3) Calculation of Effective Income

The Mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(N) Annuities or Similar (Manual)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

The Mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Mortgage. The Mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

(3) Calculation of Effective Income

The Mortgagee must use the current rate of the annuity to calculate Effective Income.

The Mortgagee must subtract any of the assets used for the Borrower’s required funds to close to purchase the subject Property from the Borrower’s liquid assets prior to calculating any Annuity Income.

(O) Notes Receivable Income (Manual)

(1) Definition

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

(2) Required Documentation

The Mortgagee must verify and document the existence of the Note. The Mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or canceled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(P) Nontaxable Income (Grossing Up) (Manual)

(1) Definition

Nontaxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- Section 8 Homeownership Vouchers;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

The Mortgagee must document and support the amount of income to be Grossed Up for any Nontaxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

(3) Calculation of Effective Income

The amount of continuing tax savings attributed to Nontaxable Income may be added to the Borrower's gross income.

The percentage of Nontaxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the Mortgagee may Gross Up the Nontaxable Income by 15 percent.

The Mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

(Q) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:
- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

c. Asset Requirements (Manual) (04/18/2023)

i. General Asset Requirements (Manual)

The Mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied toward the Borrower's MRI.

(A) Earnest Money Deposit (Manual)

The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:
- a copy of the Borrower's canceled check;
- certification from the deposit-holder acknowledging receipt of funds;
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or

- direct verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with Gifts (Personal and Equity).

(B) Cash to Close (Manual)

The Mortgagee must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

The Mortgagee must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

The Mortgagee or sponsored TPO may charge a reasonable origination fee.

The Mortgagee or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs and prepaid items necessary to close the Mortgage. Charges may not exceed the actual costs.

The Mortgagee must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19.

(b) Discount Points

Discount Points refer to a charge from the Mortgagee for the interest rate chosen. They can be paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.

(d) Non-realty or Personal Property

Non-realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

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

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid items; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

(i) Interested Party Contributions on the Closing Disclosure

The Mortgagee may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

The refund of the Borrower's POCs may be used toward the Borrower's MRI if the Mortgagee documents that the POCs were paid with the Borrower's own funds.

The Mortgagee must identify the total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum. The Mortgagee must identify each item paid by Interested Party Contributions.

(j) Real Estate Tax Credits

Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting, without consideration of the real estate tax credit.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

(C) Reserves (Manual)

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another Property; or
- borrowed funds from any source.

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

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

(2) Reserves for Three- to Four-Unit Properties

The Mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (Manual)

(A) Definition

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

(B) Standard

The Mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

(1) the seller of the Property;
(2) any other person or entity who financially benefits from the transaction (directly or indirectly); or
(3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

While additional funds to close may be provided by one of these sources if permitted under the relevant requirements above, none of the Borrower's MRI may come from these sources. The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with Prohibited Sources of Minimum Cash Investment Under the National Housing Act - Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Governmental Entity is originating the insured Mortgage through one of its homeownership programs.

(C) Required Documentation

Where the Borrower's MRI is provided by someone other than the Borrower, the Mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the Mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to the Mortgagee to fund the Borrower's MRI.

The Mortgagee must obtain:

- a canceled check, evidence of wire transfer, or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided toward the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided toward the Borrower's MRI were funds legally belonging to the Governmental Entity, when acting in their governmental capacity, at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds toward the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds toward the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds toward the Borrower's MRI.

While the Mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

iii. Sources of Funds (Manual)

The Mortgagee must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (Manual)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

The Mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Mortgagee must obtain documentation of the deposits. The Mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

(a) Traditional Documentation

The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

(b) Alternative Documentation

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Mortgagee must obtain statement(s) for the most recent two months.

(B) Cash on Hand (Manual)

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

The Mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

(3) Required Documentation

The Mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The Mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

(C) Retirement Accounts (Manual)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

The Mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

(3) Required Documentation

The Mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

(D) Stocks and Bonds (Manual)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

The Mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the Mortgagee must determine the current value of the stocks and bonds through TPV. Government-issued savings bonds are valued at the original purchase price, unless the Mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the Mortgagee must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs (Manual)

(1) Definition

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

(2) Standard

The Mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The Mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

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

(F) Gifts (Personal and Equity) (Manual)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization;
- a governmental agency or public entity that has a program providing homeownership assistance to:
  - low or moderate income families; or
  - first-time homebuyers.

Any Gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(b) Reserves

Surplus gift funds may not be considered as cash Reserves.

(c) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

Documenting the Transfer of Gifts

The Mortgagee must verify and document the transfer of Gifts from the donor to the Borrower in accordance with the requirements below.

a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the Gift.

c. For Gifts of land, obtain proof of ownership by the donor and evidence of the transfer of title to the Borrower.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from an Interested Party.

The Mortgagee and its Affiliates are prohibited from loaning funds to the donor who will use them as gift funds unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.

(b) Required Documentation

The Mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the Gift; and
- a statement that no repayment is required.

(G) Interested Party Contributions (Manual)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs including any items POC, prepaid items, and Discount Points.

(2) Standard

Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs, prepaid items, and Discount Points. The 6 percent limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, prepaid items, and Discount Points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit provided the Mortgagee or TPO is not the seller, real estate agent, builder or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (Manual)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the purchase price;

- contributions exceeding the origination fees, other closing costs, prepaid items, and Discount Points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (Manual)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (Manual)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (Manual)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent pro-rated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Downpayment Assistance Programs (Manual)

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does not allow nonprofit entities to provide Gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

The Mortgagee must ensure that a Gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a Gift that is to be used for all, or part, of a Borrower's downpayment, and the organization providing the Gift loses or gives up its federal tax-exempt status, FHA will recognize the Gift as an acceptable source of the downpayment provided that:

- the Gift is made to the Borrower;
- the Gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The Mortgagee is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Tax Exempt Organization Search, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (Manual)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a Gift or a grant even if it does not require regular payments or has other features forgiving the debt.

(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual)

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's MRI;

- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The Mortgagee must enter information on HUD-approved Nonprofits into FHAC, as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the Mortgage and Note; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first Mortgage;
  - the complete property address;
  - the name, address and Tax ID for the nonprofit;
  - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;

- the amount and purpose for the secondary financing provided to the Borrower; and
- a statement indicating whether the secondary financing:
  - will close in the name of the Governmental Entity; or
  - will be closed in the name of the nonprofit and held by the Governmental Entity.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- specifies the functions performed are within the Governmental Entity's secondary financing program; and
- names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust).

Where a nonprofit meets the criteria identified in Section 115 of the IRC for exclusion of taxation, the nonprofit must provide one of the following:

- a letter from the organization's auditor;
- a written statement from the organization's General Counsel, as an official of the organization;
- a determination or ruling letter issued by the IRS; or
- an equivalent document evidencing Section 115 status.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (Manual)

(a) Definition

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

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;

- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

The Mortgagee must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

(3) Family Members (Manual)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;

- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an entity with an Identity of Interest in the sale of the Property, such as the:
  - seller;
  - builder;
  - loan originator; or
  - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the Mortgage and Note.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the Mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Mortgagee.

(4) Private Individuals and Other Organizations (Manual)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the Nationwide Mortgage Limits.
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the Mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

The Mortgagee must obtain from the provider of any secondary financing:
- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the Mortgage and Note.

(K)Loans (Manual)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (Manual)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(d) Required Documentation

The Mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (Manual)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

The Mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

The Mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (Manual)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA-insured Mortgage, and meet the requirements for Secondary Financing Provided by Governmental Entities and HOPE Grantees.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

The Mortgagee must verify and document the promissory Note.

(L) Grants (Manual)

(1) Disaster Relief Grants (Manual)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (Manual)

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a Gift or grant even if it does not require regular payments or has other features forgiving the debt.

(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(c) Required Documentation

The Mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

The Mortgagee must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (Manual)

(1) Definition

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, prepaid items, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

(2) Standard

(a) Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, the Mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The Mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

The Mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (Manual)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles.

(2) Standard

The Mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain cash for closing.

The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

(O) Trade-In of Manufactured Home (Manual)

(1) Definition

Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

The Mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The Mortgagee must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (Manual)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

The Mortgagee must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Closing Disclosure or similar legal document.

The Mortgagee must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the Net Sale Proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (Manual)

(1) Definition

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.

(2) Standard

Mortgagees may consider Real Estate Commissions from Sale of Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

(3) Required Documentation

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the Property being purchased.

(R) Sweat Equity (Manual)

(1) Definition

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the Property being purchased.

(2) Standard

The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower's MRI.

The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The Mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

(3) Required Documentation

For materials furnished, the Mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the Mortgagee must verify and document that the work will be completed in a satisfactory manner. The Mortgagee must also obtain evidence of Contributory Value of the labor either through an Appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the Mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible)
- For labor on New Construction, the Mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

(S) Trade Equity (Manual)

(1) Definition

Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash investment.

(2) Standard

The amount of the Borrower's equity contribution is determined by:

- using the lesser of the Property's appraised value or sales price; and
- subtracting all liens against the Property being traded, along with any real estate commission.

If the Property being traded has an FHA-insured Mortgage, assumption processing requirements and restrictions apply.

(3) Required Documentation

The Mortgagee must obtain a residential appraisal report complying with FHA appraisal policy to determine the Property's value. The Mortgagee must also obtain the Closing Disclosure or similar legal document to document the sale of the Property.

(T) Rent Credits (Manual)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

The Mortgagee may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent toward the MRI.

(3) Required Documentation

The Mortgagee must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

d. Final Underwriting Decision (Manual) (04/18/2023)

The Direct Endorsement (DE) underwriter is ultimately responsible for making an underwriting decision on behalf of their Direct Endorsement Mortgagee in compliance with HUD requirements.

i. Duty of Care/Due Diligence (Manual)

The underwriter must exercise the same level of care that would be used in underwriting a Mortgage entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Mortgage.

ii. Specific Underwriter Responsibilities (Manual)

The underwriter must review each Mortgage as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Mortgage Payments to make an underwriting decision on behalf of their Direct Endorsement Mortgagee in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the mortgage obligation according to the terms of the Mortgage.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Mortgage, and the overall acceptability of the Mortgage for FHA insurance;
- identify any inconsistencies in information obtained by the Mortgagee in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Mortgage; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

iii. Underwriting of Credit and Debt (Manual)

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report (see Credit Requirements).

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for rejecting the mortgage application.

Compensating factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the mortgage transaction or the purchase of the Property.

iv. Underwriting of Income (Manual)

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see Income Requirements).

v. Underwriting of Assets (Manual)

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation (see Asset Requirements).

vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)

The underwriter must review the MIP and mortgage amount and verify that they have been supported with the proper documentation (see underwriting).

vii. Calculating Qualifying Ratios (Manual)

(A) General Information about Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Mortgage Payment to Effective Income Ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the Approvable Ratio Requirements chart.

The Mortgagee must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

(B) Calculating Total Mortgage Payment

The total Mortgage Payment includes:

- P&I;
- real estate taxes;
- Hazard Insurance;
- Flood Insurance as applicable;
- MIP;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

The Mortgagee may deduct the amount of the Section 8 Homeownership Voucher if it is paid directly to the Servicer.

(1) Estimating Real Estate Taxes

The Mortgagee must use accurate estimates of monthly tax escrows when calculating the total Mortgage Payment.

In New Construction cases and Manufactured Homes converting to real estate, property tax estimates must be based on the land and improvements.

Where real estate taxes are abated, Mortgagees may use the abated amount provided that (1) the Mortgagee can document the abated amount with the taxing authority and (2) the abatement will remain in place for at least the first three years of the Mortgage.

(2) Condominium Utility Expenses

The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the HOA fees before computing qualifying ratios, provided the Borrower provides proper documentation, such as statements from the utility company.

(3) Temporary Interest Rate Buydowns

The Mortgagee must use the Note rate when calculating principal and interest for Mortgages that involve a temporary interest rate buydown.

(C) Calculating Total Fixed Payment

The total fixed payment includes:

- the total Mortgage Payment; and
- monthly obligations on all debts and liabilities.

viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

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

ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten Mortgages with qualifying ratios as described above.

(A) Energy Efficient Homes

(1) Standard

For Mortgages on New Construction, the Borrower is eligible for the EEH stretch ratios when the Property meets or exceeds the higher of:

- the latest energy code standard that has been adopted by HUD through a Federal Register notice;
- the applicable International Energy Conservation Code (IECC) year used by the state or local building code; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

For Mortgages on Existing Construction, the Borrower is eligible for the EEH stretch ratios when the property meets either of the following conditions:

- homes that *currently* score a **"6" or higher** on the Home Energy Score scale;
- homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home's score to a **"6" or higher** are completed prior to closing, or in association with FHA's 203(k), Weatherization, EEM or Solar and Wind programs; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

(2) Required Documentation

The following documents must be included in the case binder submitted for endorsement:

- For Mortgages on Existing Construction, a copy of the Home Energy Score Report, or a photo of the ENERGY STAR label on a Manufactured Home.
- For Mortgages on New Construction, a copy of the Builder's Certification, form HUD-92541, to evidence the IECC code, successor code, or local/state building code used; or the manufacturer's invoice of the Manufactured Home indicating that the unit is ENERGY STAR qualified.

(B) Verified and Documented Cash Reserves

Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or

- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's total assets as described in Asset Requirements less:

- the total funds required to close the Mortgage;
- Gifts;
- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

(C) Minimal Increase in Housing Payment

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than $100 or 5 percent, whichever is less; and
- there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment Mortgagees may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

(D) No Discretionary Debt

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

(E) Significant Additional Income Not Reflected in Effective Income

Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- the Mortgagee must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

(F) Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) *Lenders Handbook* - VA Pamphlet 26-7, Chapter 4.9 b and e.

(1) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- total fixed payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Nontaxable Income.

If available, Mortgagees must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, Mortgagees must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the *Lenders Handbook* - VA Pamphlet 26-7.

(2) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, the Mortgagee must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."

Exception

The Mortgagee may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in *Lenders Handbook* - VA Pamphlet 26-7, select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

x. Borrower Approval or Denial (Manual)

(A) Re-underwriting

The Mortgagee must re-underwrite a Mortgage when any data element of the Mortgage changes and/or new Borrower information becomes available.

(B) Documentation of Final Underwriting Review Decision

The underwriter must complete the following documents to evidence their final underwriting decision.

For cases involving Mortgages to HUD employees, the Mortgagee completes the following and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice prior to closing.

For cases involving Mortgagees that receive a Direct Endorsement Program Test Case Phase approval letter from HUD's HOC, the Mortgagee completes the following and then submits the complete underwritten mortgage application post-closing to FHA for review and issuance of a Firm Commitment or Rejection Notice.

(1) Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

The underwriter must record the following items on form HUD-92900-LT:

- their decision;
- any compensating factors;

- any modification of the mortgage amount and approval conditions under "Underwriter Comments"; and
- their Direct Endorsement Identification Number and signature.

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

The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.

(3) Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*

The underwriter must complete form HUD-92900-A as directed in the form instructions.

An authorized officer of the Mortgagee, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

(C) Conditional Approval

The underwriter must condition the approval of the Borrower on the completion of the final *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-A at or before closing if the underwriter relied on an initial *URLA* and form HUD-92900-A in underwriting the Mortgage.

(D) HUD Employee Mortgages

If the Mortgage involves a HUD employee, the Mortgagee must condition the loan on the approval of the Mortgage by HUD. The Mortgagee must submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

(E) Notification of Borrower of Approval and Term of the Approval

The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

(F) Responsibilities upon Denial

When a Mortgage is denied, the Mortgagee must comply with all requirements of the FCRA, and the Equal Credit Opportunity Act (ECOA), as implemented by

Regulation B (12 CFR Part 1002). The Mortgagee must complete the Mortgage Credit Reject in FHAC.

xi. RESERVED FOR FUTURE USE

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Previous content from this section is deleted and this section is reserved for future use.

xii. Underwriting Nonprofit Borrowers (Manual)

(A) General Eligibility

Nonprofit agencies must be HUD-approved as a Borrower prior to case number assignment. The Jurisdictional HOC approves or denies the nonprofit agency's participation in FHA activities. The approval is valid for a two-year period.

(B) Borrower Eligibility

The Mortgagee must review the Nonprofit List in FHAC, and ensure the maximum case load limitation is not exceeded for nonprofit Borrowers.

The Mortgagee must ensure that Additional Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies are met.

The Mortgagee must verify that the nonprofit organization remains eligible under Section 501(c)(3) as exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended.

(1) Employer Identification Number (EIN)

The Mortgagee must obtain the Employer Identification Number (EIN) of the nonprofit Borrower and enter it into the SSN field in FHAC.

(2) Credit Alert and Limited Denial of Participation Screening

The Mortgagee must screen nonprofit Borrowers through the Credit Alert Verification Reporting System (CAIVRS) and the Limited Denial of Participation List using the nonprofit Borrower's EIN.

(C) Program and Product Limitations

Nonprofit Borrowers are eligible only for fixed rate Mortgages.

Nonprofit Borrowers are eligible only for FHA-to-FHA refinances. Nonprofit Borrowers are not eligible for cash-out refinances.

(D) Maximum Loan-to-Value Limits

Mortgages for nonprofit Borrowers are subject to the same LTV limitations as Mortgages secured by a Principal Residence.

(E) Underwriting

The Mortgagee must underwrite nonprofit Borrowers in accordance with the guidance provided in this section. The Underwriting the Borrower Using the TOTAL Mortgage Scorecard and Manual Underwriting of the Borrower sections are not applicable to nonprofit Borrowers.

The Mortgagee must obtain documentation to determine the nonprofit Borrower's actual financial capacity and demonstrate that it has stability and proper cash management.

(1) Standard

(a) Funding Stream Analysis

The Mortgagee must consider the reliability and duration of the funding stream, and whether the primary sources of funding are competitive, whether the nonprofit Borrower's funding stream is from a mix of private and public sources, or only from public funds, and if other sources of funding are available should one or more be curtailed.

The Mortgagee must also consider whether those funding sources permit overhead and administrative allowances as well as the amount of the nonprofit Borrower's assets that will be encumbered by the downpayments on the Mortgages.

(b) Financial Capacity Analysis

The Mortgagee must analyze the year-to-date and previous two years' financial statements, balance sheets, statements of activity and statements of cash flow to determine the financial stability and capacity of the nonprofit Borrower, including all mortgage applications in process.

***(i)* Unrestricted Cash Balance**

The Mortgagee must determine if the nonprofit Borrower has an unrestricted cash balance exclusive of lines of credit and Rental Income from the financed Properties that is stable or increasing and supports a six month reserve meeting the greater of:

- 10 percent of the total Mortgage Payments due each month on all Mortgages; or
- total Mortgage Payments for the single largest Mortgage.

***(ii)* Liquidity Ratio**

The Mortgagee must determine if the nonprofit Borrower has a liquidity ratio (current assets divided by current liabilities) of 2.00 or greater. Lines of credit are not to be considered in this ratio.

***(iii)* Total Net Assets (Equity)**

The Mortgagee must determine that the total net assets are:

- stable or increasing; and
- equal to or greater than 25 percent of the proposed mortgage debt.

***(iv)* Unrestricted Net Assets**

The Mortgagee must determine that the unrestricted net assets are stable or increasing.

***(v)* Total Assets and Liabilities**

The Mortgagee must determine that:

- the total assets are stable or increasing; and
- the trend of liabilities is stable or increasing at the same rate as the total assets.

***(vi)* Support and Revenue Accounts**

Definition

Support and Revenue Accounts refer to operating income and other non-debt income sources.

Standard

The Mortgagee must determine that:

- the support and revenue accounts are stable or increasing; and
- the trend of operating expenses is stable or increasing at the same rate as the support and revenue accounts.

***(vii)* Cash Flow**

The Mortgagee must determine that the trend of cash flow from operating activities is positive.

(viii) Working Capital

Definition

Working Capital refers to the liquid assets less short-term liabilities.

Standard

The Mortgagee must determine that the trend of working capital is stable or increasing.

(2) Required Documentation

The Mortgagee must obtain:

- the two most recent years':
  - audited financial statements (balance sheet, statement of activity, statement of cash flow); and
  - Form IRS 990, *Return of Organization Exempt from Income Tax*;
- most recent audited 90-Day year-to-date financial statement;
- credit reports on the nonprofit agency; and
- corporate resolution delegating signatory authority.

(F) Final Underwriting Decision for Nonprofit Borrowers

The Mortgagee must analyze the nonprofit Borrower's financial capacity for each Mortgage being considered in accordance with the standards above.

If the nonprofit Borrower does not meet all of the standards above, the Mortgagee must document acceptable compensating factors.

The Mortgagee must describe how it arrived at the conclusion that the nonprofit Borrower was an acceptable mortgage risk and met FHA's eligibility criteria. The analysis must consider the effect of the proposed mortgage debt(s) on the nonprofit agency's financial condition.

6. Closing

a. Mortgagee Closing Requirements (01/24/2022)

i. Chain of Title

The Mortgagee must obtain evidence of prior ownership when a Property was sold within 12 months of the case number assignment date. The Mortgagee must review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.

ii. Title

The Mortgagee must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the FHA-insured Mortgage is in first lien position.

(A) Good and Marketable Title

(1) Standard

The Mortgagee must determine if there are any exceptions to good and marketable title not covered by the General Waiver (see General Mortgage Insurance Eligibility and 24 CFR § 203.389).

The Mortgagee must review any exceptions discovered during the title search and decide whether such title exceptions affect the Property's value and/or marketability.

If the Mortgagee determines that any exception affects the Property's value and/or marketability, the Mortgagee must request a waiver.

(2) Required Documentation

The Mortgagee must obtain Title Evidence demonstrating good and marketable title.

(B) Requests for Title Exceptions Not Covered by the General Waiver

The Mortgagee must submit a request for a waiver when the Title Exception is not covered by the General Waiver, to the attention of the Processing and Underwriting Division Director at the Jurisdictional HOC prior to endorsement. The request must include the case number, the specific guideline and the reason the Mortgagee is asking for the waiver. If the Jurisdictional HOC grants the requested waiver, the HOC will notify the Mortgagee in writing. The Mortgagee must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the Mortgage is not eligible for FHA insurance.

(C) Manufactured Housing

Good and marketable title showing the Manufactured Home and land are classified as real estate at the time of closing is required.

If there were two existing titles at the time the housing unit was purchased, the Mortgagee must ensure that all state or local requirements for proper purging of the title (chattel or equivalent debt instrument) have been met, and the subject Property is classified as real estate prior to endorsement. The Manufactured Home need not be taxed as Real Property.

iii. Legal Restrictions on Conveyance (Free Assumability)

The Mortgagee must determine if there are any legal restrictions on conveyance in accordance with 24 CFR § 203.41.

iv. Closing in Compliance with Mortgage Approval

The Mortgagee must instruct the settlement agent to close the Mortgage in the same manner in which it was underwritten and approved.

The Mortgagee must ensure that the conditions listed on form HUD-92900-A and/or form HUD-92800.5B are satisfied.

v. Closing in the Mortgagee's Name

A Mortgage may close in the name of the Mortgagee or the sponsoring Mortgagee, the principal or the authorized agent. TPOs that are not FHA-approved Mortgagees may not close in their own names or perform any functions in FHA Connection (FHAC).

vi. Required Forms

The Mortgagee must use the forms and/or language prescribed by FHA in the legal documents used for closing the Mortgage.

vii. Certifications

(A) Borrower Certification

The Borrower must sign the certification on form HUD-92900-A for all transactions and the Settlement Certification for purchase transactions in accordance with the instructions provided on the form.

(B) Seller Certification

The seller must sign the certification on the Settlement Certification for purchase transactions.

(C) Settlement Agent Certification

The settlement agent must sign the certification on the Settlement Certification for purchase transactions.

(D) Lender Certification

The Mortgagee must sign the certifications on the form HUD-92900-A in accordance with the instructions provided on the form.

viii. Projected Escrow

The Mortgagee must establish the escrow account in accordance with the regulatory requirements in 24 CFR § 203.550 and RESPA.

(A) Monthly Escrow Obligations

The Mortgagee must collect a monthly amount from the Borrower that will enable it to pay all escrow obligations in accordance with 24 CFR § 203.23. The escrow account must be sufficient to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;
- Mortgage Insurance Premiums (MIP);
- special assessments;
- flood insurance premiums if applicable;
- Ground Rents if applicable;
- servicing, maintenance, repair and replacement of water purification equipment; and
- any item that would create liens on the Property positioned ahead of the FHA-insured Mortgage, other than condominium or Homeowners' Association (HOA) fees.

(B) Repair Completion Escrow Requirements

The Mortgagee may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.

Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.

The Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the repair escrow has been established.

The Mortgagee must certify on form HUD-92051, *Compliance Inspection Report,* that the incomplete construction, alterations and repairs have been satisfactory completed.

Effective for case numbers assigned on or after October 31, 2016, after the repair escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

ix. Temporary Interest Rate Buydown Escrow Requirements

The Mortgagee must establish an escrow for temporary interest rate buydowns.

The escrow agreement must not:

- permit reversion of undistributed escrow funds to the provider if the Property is sold or the Mortgage is prepaid in full; nor
- allow unexpended escrow funds to be provided to the Borrower in cash, unless the borrower funds were used to establish the escrow account.

Payments must be made by the escrow agent to the Mortgagee or servicing agent. If escrow payments are not received for any reason, the Borrower is responsible for making the total payment as described in the mortgage Note.

x. Closing Costs and Fees

The Mortgagee must ensure that all fees charged to the Borrower comply with all applicable federal, state and local laws and disclosure requirements.

The Mortgagee is not permitted to use closing costs to help the Borrower meet the Minimum Required Investment (MRI).

(A) Collecting Customary and Reasonable Fees

The Mortgagee may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

The Mortgagee must ensure that the aggregate charges do not violate FHA's Tiered Pricing rules.

(B) Other Fees and Charges

The Mortgagee or sponsored TPO may charge the Borrower Discount Points, and lock-in and rate lock fees consistent with FHA and CFPB requirements.

(1) Origination Fees

The Mortgagee may charge an origination fee in accordance with RESPA.

(2) Discount Points

The Mortgagee may charge the Borrower Discount Points.

(3) Lock-in and Rate Lock Fees

The Mortgagee may charge the Borrower lock-in and rate lock fees only if the Mortgagee provides a lock-in or commitment agreement guaranteeing the interest rate and/or Discount Points for a period of not less than 15 Days prior to the anticipated closing.

(C) Qualified Mortgage

The Mortgagee must ensure the points and fees charged are in compliance with FHA's Qualified Mortgage Rule.

(D) Tiered Pricing

The Mortgagee must ensure that the aggregate fees and charges do not violate the following Tiered Pricing rule.

(1) Definitions for Tiered Pricing

Area refers to a Metropolitan Statistical Area (MSA) as established by the Office of Management and Budget.

Mortgage Charge refers to the interest rate, Discount Points, origination fee, and any other amount charged to the Borrower for an insured Mortgage.

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed as a percentage of the initial principal of the Mortgage.

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings located within the area.

(2) Required Documentation

The Mortgagee must document that any variation in the Mortgage Charge Rate is based on actual variations in fees or costs to the Mortgagee to make the Mortgage.

(3) Standard

The Mortgagee may not make a Mortgage with a Mortgage Charge Rate that varies more than two percentage points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings located within the area.

To determine whether a Mortgage exceeds the two percentage point variation limit, the Mortgagee must compare Mortgage Charge Rates for Mortgages of the same type, from the same area, and made on the same day or during some other reasonably limited period.

See Section 203(u) of the National Housing Act (12 U.S.C. § 1709(u)), 24 CFR § 202.12.

xi. Disbursement Date

Disbursement Date refers to the date the proceeds of the Mortgage are made available to the Borrower.

The Disbursement Date must occur before the expiration of the FHA-issued Firm Commitment or Direct Endorsement approval and credit documents.

xii. Per Diem Interest and Interest Credits

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

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

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

xiii. Signatures

The Mortgagees must ensure that the Mortgage, Note, and all closing documents are signed by all required parties in accordance with the Borrower Eligibility.

The Mortgagee must ensure that the signatures block on the Mortgage follows the Fannie Mae/Freddie Mac format, with the following exceptions: witness signatures are only required if witnesses are required by state law, and the Borrower's Social Security Number (SSN) may be omitted.

(A) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final HUD-92900-

A, *HUD/VA Addendum to Uniform Residential Loan Application* and the final Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*).

Unless required by applicable state law, or as stated in the Exception below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- Mortgagee, or any employee or Affiliate;
- loan originator, or employer or employee;
- title insurance company providing the title insurance policy, the title agent closing the Mortgage, or any of their Affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the internet has:

- confirmed their identity; and
- reaffirmed, after an opportunity to review the required mortgage documents, their agreement to the terms and conditions of the required mortgage documents evidencing such transaction and to the execution of such required Mortgage by such attorney-in-fact.

The Mortgagee must obtain copies of the signed initial *URLA* and initial form HUD 92900-A signed by the Borrower or POA in accordance with Signature Requirements for All Application Forms.

(B) Electronic Signatures

See Policy on Use of Electronic Signatures.

b. Mortgage and Note (04/18/2023)

i. Definitions

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property and the land on which it is situated, such as a deed of trust or security deed or land contract.

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

ii. Standard

The Mortgagee must develop or obtain a separate Mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable Model Note and Mortgage.

The Mortgagee must ensure that the Mortgage and Note comply with all applicable state and local requirements for creating a recordable and enforceable Mortgage, and an enforceable Note.

All occupying and non-occupying Borrowers and co-Borrowers must take title to the Property in their own name or a living trust at settlement, be obligated on the Note or credit instrument, and sign all security instruments. In community property states, the Borrower's spouse is not required to be a Borrower or a Co-signer. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

c. Disbursement of Mortgage Proceeds (01/24/2022)

i. Standard for Disbursement of Mortgage Proceeds

The Mortgagee must verify that Mortgage proceeds are disbursed in the proper amount to the Borrower and the seller, or in the case of a refinance transaction, to the debt holder. At closing, the Mortgage proceeds disbursed by the Mortgagee and the cash from the Borrower must equal the total Acquisition Cost or refinance cost.

ii. Required Documentation for Disbursement of Mortgage Proceeds

The Mortgagee must obtain the final acknowledged Closing Disclosure or similar legal document from the settlement agent signed by the Borrower. If the seller's Closing Disclosure or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final Closing Disclosure provided to the seller to keep in the case binder.

7. Post-closing and Endorsement

a. Pre-endorsement Review (03/14/2016)

The Mortgagee must complete a pre-endorsement review of the mortgage file to ensure all applicable documents as described in the Uniform Case Binder Stacking Order are included in the endorsement submission. The Mortgagee must exercise due diligence in performing its pre-endorsement responsibilities. This review must be conducted by staff not involved in the originating, processing, or underwriting of the Mortgage. The case binder must contain all documentation relied upon by the Mortgagee to justify its decision to approve the Mortgage.

b. Mortgagee Pre-endorsement Review Requirements (09/20/2021)

When conducting the pre-endorsement review, the Mortgagee must review and verify the following items, as applicable. All documents must be legible.

i. Late Submission Letter

The Mortgagee must confirm that the Late Submission Letter is completed, if necessary.

ii. Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*

The Mortgagee must confirm that the form is completed. The form must be signed and dated by the underwriter, as applicable.

iii. Note (Including Any Secondary Mortgage)

The Mortgagee must confirm that the Note is the Authoritative Copy, the Borrower name on the Note matches form HUD-92900-LT, and the required language from the Model Note is present. The Mortgagee must also confirm that:

- the Note has been executed;
- the mortgage amount is not higher than approved by the underwriter on form HUD-92900-LT;
- the term of the Mortgage is the same as on the *Uniform Residential Loan Application* (*URLA*, Fannie Mae Form 1003/Freddie Mac Form 65); and
- all applicable allonges, agreements, and riders are properly executed.

For Test Cases and HUD employee Mortgages, the Mortgagee must ensure that the Borrower's name on the Note matches form HUD-92900.4, *Firm Commitment.*

iv. Security Instrument

The Mortgagee must confirm that the security instrument:

- is the Authoritative Copy;
- has been executed (along with all riders indicated on the last page of the security instrument);

- includes the principal balance that is not higher than, and maturity date that is not different than, that approved by the underwriter; and
- lists the same property address as the *URAR* (Fannie Mae Form 1003/Freddie Mac Form 65).

v. Closing Disclosure and Settlement Certification

The Mortgagee must confirm that the Closing Disclosure or similar legal document is complete and signed by all required parties, and the Settlement Certification is complete and signed by the Borrower, seller (as applicable, except in case of HUD Real Estate Owned (REO) Sales), and settlement agent. The Settlement Certification is not required for refinance transactions. If the seller's Closing Disclosure or similar legal document is provided separately, the Mortgagee must obtain from the Closing Agent a copy of the final Closing Disclosure provided to the seller to keep in the case binder.

vi. Final Uniform Residential Loan Application

The Mortgagee must confirm the *URLA* (Fannie Mae Form 1003/Freddie Mac Form 65) is signed and dated by the Mortgagee and all Borrowers. If the final *URLA* is not signed by the Mortgagee, the initial application signed by the Mortgagee is acceptable.

vii. Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*

The Mortgagee must confirm that form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application,* is completed as instructed on the form.

viii. Credit Report(s)

The Mortgagee must confirm that the mortgage file contains a credit report for each Borrower; if the Property or the Borrower is located in a community property state confirm that the mortgage file contains a credit report for a non-borrowing spouse. If there are multiple credit reports, all credit reports must be submitted in the case binder.

ix. CAIVRS Report

The Mortgagee must confirm that the mortgage file contains a clear Credit Alert Verification Reporting System (CAIVRS) report or documentation from the creditor agency to support the verification and resolution of the debt.

x. Asset Verification

The Mortgagee must confirm that the mortgage file contains the Verification of Deposit (VOD) and/or bank statements.

xi. Gift Letter

The Mortgagee must confirm that the mortgage file contains a gift letter if a Gift is shown on form HUD-92900-LT.

xii. Secondary Financing Documentation

The Mortgagee must confirm that the mortgage file contains a copy of the Mortgage and Note, if applicable.

xiii. Income Verification

The Mortgagee must confirm that the mortgage file contains verification of the Borrower's income.

xiv. Evidence of the Social Security Number

The Mortgagee must confirm that the mortgage file contains evidence of the Borrower's Social Security Number (SSN).

xv. Form HUD-92300, *Mortgagee's Assurance of Completion*

The Mortgagee must confirm that form HUD-92300, *Mortgagee's Assurance of Completion*, is completed and signed, if applicable.

xvi. Form HUD-92051, *Compliance Inspection Report* or Fannie Mae Form 1004D, *Appraisal Update and/or Completion Report*

The Mortgagee must confirm that form HUD-92051, *Compliance Inspection Report*, or Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion Report, Part B*, is completed, signed, and dated by an approved inspector. Local government inspection with the underwriter certification may be accepted.

xvii. Form NPMA-33, *Wood Destroying Insect Inspection Report*

The Mortgagee must confirm that the file contains the National Pest Management Association (NPMA) form NPMA-33, *Wood Destroying Insect Inspection Report,* or the state mandated infestation report, as applicable.

xviii. Local Health Authority's Approval for Individual Water and Sewer Systems

The Mortgagee must confirm that the file contains the Local Health Authority's approval for Individual Water Supply Systems and sewer systems, if applicable.

xix. New Construction Exhibits

For New Construction, the Mortgagee must confirm that the documentation requirements found in the New Construction product sheet are in the mortgage file.

xx. Form HUD-92800.5b, *Conditional Commitment and Direct Endorsement Statement of Appraised Value*

The Mortgagee must confirm that form HUD-92800.5b, *Conditional Commitment and Direct Endorsement Statement of Appraised Value*, is completed.

xxi. Appraisal Report

The Mortgagee must confirm that the original Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report (URAR)*, or other appropriate appraisal form, is complete and contains the Appraiser's signature and date.

xxii. Specialized Eligibility Documents

The Mortgagee must confirm that the mortgage file contains all required program-specific documents.

xxiii. Purchase Contract and Addenda

The Mortgagee must confirm that the Sales/Purchase Contract, addenda, and the Amendatory Clause are signed by all Borrowers and sellers. The Amendatory Clause is not required on REO Sales, or 203(k) Mortgages.

The Mortgagee must confirm that Real Estate Certification is signed by Borrowers, sellers, and selling real estate agent or broker if their signature is not contained within the purchase agreement.

c. Inspection and Repair Escrow Requirements for Mortgages Pending Closing or Endorsement in Presidentially-Declared Major Disaster Areas (06/01/2022)

All Properties with pending Mortgages or endorsements in areas under a Presidentially-Declared Major Disaster Areas (PDMDA) designated for individual assistance must have a damage inspection report that identifies and quantifies any dwelling damage. The damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period (as defined by FEMA) or 14 Days from the Incident Period start date, whichever is earlier. If the effective date of the appraisal is on or after the date required above for an inspection, a separate damage inspection report is not necessary.

Streamline Refinances are allowed to proceed to closing and/or endorsement without any additional requirements.

FHA does not require the Appraiser to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.

Damage inspections should be completed by the original Appraiser. However, if the original Appraiser is not available, another FHA Roster Appraiser in good standing with geographic competence in the affected market may be used. If the Mortgagee uses a different Appraiser to inspect the Property, the Appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.

All damages must be repaired by licensed contractors or per local jurisdictional requirements. All damages, regardless of amount, must be repaired and the Property restored to pre-loss condition with appropriate and applicable documentation.

i. Mortgages Pending Closing

The following table shows inspection and repair escrow requirements that apply to Mortgages on Properties that have not yet been closed:

Pending Mortgage Closure	
If…	**Then…**
The Mortgage is not closed,	Inspect the Property to determine damage exists. Provide on-site inspection with interior/exterior photographs.
No damage exists,	Close Mortgage and document inspection.
Damage exists but is below $5,000 and Property is habitable,	Complete repairs and close Mortgage or establish repair escrow and close Mortgage.
Damage exists and is above $5,000 or the Property is not habitable,	Do not close Mortgage. Repairs must be complete prior to closing.
When…	**Then…**
Repairs above $5,000 are completed and inspected with interior/exterior photographs,	Document inspection and close Mortgage.

ii. Mortgages Pending Endorsement

The following table shows inspection and escrow requirements that apply to Mortgages on Properties that have closed but are not yet endorsed:

Pending Mortgage Endorsement	
If…	**Then…**
The Mortgage is closed but not yet endorsed,	Inspect the Property to determine if damage exists. Provide drive-by inspection with exterior photographs.
No damage exists,	Endorse Mortgage and document inspection.

Pending Mortgage Endorsement	
If…	**Then…**
Damage exists but is below $5,000 and Property is habitable,	Complete repairs and endorse Mortgage or establish repair escrow and endorse Mortgage.
Damage exists and is above $5,000 or the Property is not habitable,	Do not endorse Mortgage.
When…	**Then…**
Repairs above $5,000 are completed and inspected with interior/exterior photographs,	Document inspection and endorse Mortgage.

iii. Pre-closing Appraisal Validity in Disaster Areas

For Mortgages that are not closed prior to the Incident Period, as defined by FEMA, in PDMDAs where a damage inspection report reveals property damage, the appraisal validity period is extended from 180 Days to a maximum of one year from the effective date of the original appraisal.

In no instance will an appraisal be acceptable for a mortgage closing that has an effective date beyond one year. Mortgages with appraisals having effective dates in excess of one year require a new appraisal.

d. Procedures for Endorsement (04/18/2023)

To initiate the insurance endorsement process, the Mortgagee must complete the Insurance Application function in FHAC and compile the uniform case binder, with all of the necessary documents.

Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Guide.

The Mortgage must be current to be eligible for endorsement.

Either the sponsoring Mortgagee, principal or authorized agent must:

- complete the Mortgage Insurance Premium (MIP) Transmittal via FHAC or by batch;
- pay the Upfront MIP (UFMIP) to FHA in a lump sum within 10 Days after mortgage closing or the Disbursement Date, whichever is later;
- send the MIP to FHA, and receive payment status through FHAC or email communications;
- submit evidence of assignment of the case for endorsement in the name of the originating Mortgagee; and
- transfer the case number to another Mortgagee prior to closing, complete the Lender Transfer screen in FHAC, and complete the assignment of the Mortgage after endorsement to a new holding or servicing Mortgagee via FHAC.

i. Late UFMIP Payments

(A) 10–30 Days Late

A one-time late charge of 4 percent is assessed on an UFMIP payment received more than 10 Days after the mortgage closing or Disbursement Date, whichever is later. The Mortgagee must pay the late fee before FHA will endorse the Mortgage for insurance.

(B) More than 30 Days Late

If the UFMIP is paid more than 30 Days after mortgage closing or Disbursement Date, whichever is later, the Mortgagee will be assessed the late fee plus interest. The interest rate is the U.S. Department of the Treasury's Current Value of Funds Rate in effect when the UFMIP payment is received. The Mortgagee must pay both charges before FHA will endorse the Mortgage for insurance.

ii. Assembly of Case Binder for Electronic Submission [Text was deleted in this section.]

The Mortgagee must prepare and submit a uniform case binder through e-case submission in accordance with FHAC or through FHA Catalyst: Case Binder Module in accordance with the *FHA Catalyst: Case Binder Module User Guide*.

The Mortgagee must ensure that all case binders are complete, meet FHA specifications, contain all required documents, and are submitted electronically according to the document order designated below.

All appraisals must be submitted through FHA's EAD portal prior to endorsement. Complete instructions and data delivery format requirements for each appraisal form are found in the Appraisal Report and Data Delivery Guide.

Property Related Documents	
Conditional Commitment Direct Endorsement Statement of Appraised Value	HUD-92800.5B
Compliance Inspection Report	HUD-92051
Mortgagee Assurance of Completion	HUD-92300
Appraisal Update and/or Completion Report	Fannie Mae Form 1004D
Life of Loan Flood Certification	
Evidence of Flood Insurance (required if Property is in flood zone A or V.)	
Evidence of Hazard Insurance	
Wood Destroying Insect Infestation Report or state mandated report	NPMA-33
Waivers – Property specific issued by HOC	

Borrower's Contract with Respect to Hotel and Transient Use of Property	HUD-92561
New Construction Exhibits (for all Properties built or proposed in the last 12 months)	
Builder's Certification	HUD-92541
Warranty of Completion of Construction	HUD-92544
Certificate of Occupancy and Building Permit	
Final Inspection	
3 FHA Inspections	
Local Health Authority Approval for Individual Water and Sewer Systems	
Subterranean Termite Protection Builder's Guarantee	NPMA-99A
New Construction Subterranean Termite Service Record	NPMA-99B
LOMR, LOMA, Elevation Certificate	
Manufactured Housing	
Engineer's Certification for Manufactured Housing Foundation	
LOMR, LOMA, Elevation Certificate (if not included with New Construction Docs)	
Condominiums	
Loan Level/Single-Unit Approval Questionnaire	HUD-9991
Other Required Condominium Documents	
Specialized Eligibility Documents	
Hawaiian Home Lands	
Presidentially-Declared Disaster Area	
Energy Efficient Documents & Home Energy Rating System (HERS) Report	
203(k) Documents	
Borrower's Acknowledgement	HUD-92700-A
Borrower Identity of Interest Certification	
Rehabilitation Self-help Agreement	
Homeowner/Contractor Agreement	
Contractor & Borrower Cost Estimates	
Rehabilitation Loan Agreement	
Rehabilitation Loan Rider	
Consultant Work Write-Up	
Consultant Identity of Interest Certification	
Draw Request	HUD-9746-A
Purchase Transactions	
Purchase Contract	
Amendatory Clause	
Real Estate Certification	
Other contract addendums or short sale approval	

Chain of Title and Title Evidence demonstrating Good and Marketable Title	
Underwriting Documentation	
Late Endorsement Letter	
FHA Connection Screen Prints	
FHA Loan Underwriting and Transmittal Summary	HUD-92900-LT
Underwriter Memos, Clarifications, or Attachments	
Automated Underwriting System (AUS) Feedback Certificate	
Mortgage Note for new first lien	
Security Instrument for new first lien	
Mortgage Riders & Allonges	
Secondary Lien Exhibits	
All Closing Disclosures or similar legal documents with Addendums	
Loan Estimate	
FHA/RESPA/TILA Required Disclosures including Affiliated Business Arrangement Disclosure Statement if applicable	
Buydown Agreement	
Power of Attorney	
Uniform Residential Loan Application (URLA) – Initial and Final	Fannie Mae Form 1003
HUD/VA Addendum to Uniform Residential Loan Application – Initial and Final	HUD-92900-A
Borrower Authorization for Verification	
Borrower Authorization for Use of Information Protected under Privacy Act	
Refinance Documentation	
Refinance Authorization Screen Printout	
Payoff Statement(s) for all liens to be satisfied with Mortgage proceeds	
Borrower Certification for Refinance of Borrowers in Negative Equity Position	HUD-92918
Chain of Title and Title Evidence demonstrating Good and Marketable Title	
Borrower Identification Documentation	
Evidence of Borrower's valid government-issued photo identification or written statement from Mortgagee verifying review of valid government-issued photo identification	
Evidence of Social Security Number (SSN) or Tax Identification Number (TIN)	

Legal residency status documents for non-U.S. citizens – Employment Authorization Document	
Credit and Capacity Documentation	
Credit report(s)	
Verification of Mortgage or rent	
Credit related documentation and explanations	
Housing Counseling Certificate(s)	
Source of Funds Verification	
Verification of non-gift source of funds	
Verification of gift source of funds	
Income and Employment Documentation	
All required documentation grouped by Borrower	

iii. Case Binder Submission – Direct Endorsement Non-lender Insurance

The case binder must be received by the Jurisdictional HOC no later than 60 Days after the Disbursement Date.

(A) Late Submission

If the case binder is submitted more than 60 Days after the Disbursement Date, the Mortgagee must submit a late endorsement request, certifying that:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, Hazard Insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the Mortgagee nor its agents provided the funds to bring and/or keep the Mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement request must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the Mortgagee's representative; and
- be printed on company letterhead with the Mortgagee's address and telephone number.

(B) Assignee Mortgagee

The assignee Mortgagee of a Mortgage may submit the Mortgage for endorsement in its name or the name of the originating Mortgagee. The assignee must also notify the Jurisdictional HOC of the assignment, and verify that the originating Mortgagee completed all certifications.

The Purchasing Mortgagee may pay any required MIP, late charges, and interest.

(C) After Receipt of a Notice of Return

Notice of Return (NOR) refers to a notification to the Mortgagee specifying the reason a Mortgage is not currently eligible for endorsement.

If the Jurisdictional HOC issues a NOR, the Mortgagee may request reconsideration for insurance endorsement. All requests for reconsideration must be received by the Jurisdictional HOC within the 60-Day endorsement submission period or within 30 Days of the issuance of the NOR, whichever is longer. If the request for reconsideration is submitted after this time period, the Mortgagee must follow the guidelines for late submission.

Mortgagees submitting paper case binders must submit the original case binder with any request for reconsideration.

iv. Ineligible for Endorsement – Non-lender Insurance

(A) Notice of Return

If the Mortgage is ineligible for insurance endorsement, FHAC issues an electronic NOR, which states the reasons for non-endorsement and any corrective actions that the Mortgagee must take.

If the Mortgage is permanently rejected for insurance endorsement, the Mortgagee must notify the Borrower that they do not have an FHA-insured Mortgage and of the circumstances that made the Mortgage ineligible for FHA insurance.

(B) Additional Requirements for Permanently Rejected Mortgages

The Mortgagee must obtain a refund of both the UFMIP and any periodic MIP paid by or on behalf of the Borrower, and apply the refund to the principal balance of the Mortgage.

(C) Excessive Mortgage Amounts

An excessive mortgage amount occurs when the Mortgagee closes a Mortgage in an amount higher than what is permitted by FHA requirements. The Mortgage is not eligible for insurance until the amount is reduced to within permissible limits. The Mortgagee may choose to either pay down the principal balance, or re-close the Mortgage to an insurable amount.

The Mortgagee must provide a copy of the payment ledger showing that the principal balance has been paid down to an insurable amount.

v. Endorsement Processing – Lender Insurance

Once the Mortgagee has completed the entry of all required data, completed the pre-endorsement review, and satisfied itself that the Mortgage meets HUD requirements, it will click "yes" in the Insurance Decision field, enter the FHA Connection ID of the individual insuring the Mortgage, enter the insurance date on the Insurance Application screen and click "send."

The Mortgagee must endorse the Mortgage no later than 60 Days after the Disbursement Date.

Late Submission

If the Mortgage is endorsed more than 60 Days after the Disbursement Date, the Mortgagee must complete a late endorsement certification stating:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, Hazard Insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the Mortgagee nor its agents provided the funds to bring and/or keep the Mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement certification must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the Mortgagee's representative; and
- be printed on company letterhead with the Mortgagee's address and telephone number.

The Mortgagee must retain the certification in the case binder.

vi. Case Warnings – Lender Insurance

Case warnings are issued by FHAC based on system edits. They identify issues that must be addressed before the Mortgage can be insured. There are two kinds of case warnings: non-severe and severe.

(A) Severe Case Warnings

Severe case warnings are case warnings that make the Mortgage ineligible for Lender Insurance (LI), which include:

- a Borrower failed or is pending SSN validation;
- a Borrower has a record in CAIVRS;
- the pre-endorsement delinquency status is delinquent; or

- a deficiency exists causing risks to HUD. The requesting HOC will add text to the case warning message screen identifying the reasons requiring submission of the case binder to the HOC for a pre-endorsement review.

Once the severe case warning is corrected, documentation in support of clearing the case warning and the case binder must be submitted to the Jurisdictional HOC for pre-endorsement review and endorsement processing.

(B) Non-severe Case Warnings

Non-severe case warnings are warnings to provide guidance to the Mortgagee that conditions have been detected and must be researched before the Mortgage can be endorsed. If, after researching the matter, the Mortgagee determines that HUD requirements have not been violated, the Mortgagee may resubmit the Mortgage for insurance.

By resubmitting the information, the Mortgagee is representing that the warning has been reviewed and the Mortgage is eligible for insurance endorsement. FHAC will then allow the Mortgage to be insured by the Mortgagee.

vii. Mortgagee with Conditional Direct Endorsement Approval (Test Case)

Mortgagees who receive a Direct Endorsement Program Test Case Phase approval letter from HUD's HOC must follow the Test Case Phase Case Binder Submission process.

e. Endorsement and Post-endorsement (04/18/2023)

i. Endorsement

Upon successful completion of a pre-endorsement review either by FHA or the LI Mortgagee, an electronic Mortgage Insurance Certificate (MIC) will be issued.

The Mortgage becomes insured on the date the MIC is issued.

ii. Post-endorsement

(A) Confirming Status of the Mortgage Insurance Certificate

The Mortgagee can confirm the endorsement status of a Mortgage using FHAC or FHA Connection Business to Government (FHAC-B2G) application.

(B) Obtaining the Mortgage Insurance Certificate

When requesting the MIC, the Mortgagee must specify whether it is to be prepared in the name of the originator (principal), or authorized agent, as it appears in HUD Systems.

The MIC will be issued electronically. The Mortgagee can download and print copies of the MIC as needed.

(C) Corrections to the Mortgage Insurance Certificate

To obtain a correction to the MIC, the Mortgagee must submit the MIC Correction Request Template to the FHA Resource Center. This form may be used to correct the property address, Borrower name, ADP Code, maturity and first payments dates, P&I, interest rate, SSN, FHA case number, mortgage amount or other information contained in the MIC, or to add a co-Borrower.

(D) Corrections to Original Instruments

The Mortgagee must follow applicable local law when making corrections to the original instruments.

If new instruments are executed as required by local law, the Mortgagee must submit the new instruments prior to insurance endorsement.

(E) Partial Release of Security

FHA approval for partial release of security is required except in limited circumstances. See FHA servicing policy for more information.

iii. Case Binder Submission – Lender Insurance Mortgagees

LI Mortgagees must submit the case binder to the Jurisdictional HOC (or other HUD office as identified in the notice) when requested by FHA.

FHA will request the case binder through a daily email notification to the Mortgagee's contact person.

If requested, the LI Mortgagee must submit the case binder within 10 business days of request.

If approved to submit electronic Case Binders (eCBs) to FHA, the LI Mortgagee must submit the eCB through FHAC through the Insuring, Underwriting Report, and Lender Letter screens.

iv. Mortgage File Retention

The Mortgagee must retain their mortgage file, including the case binder, in either hard copy or electronic format for a period of two years from the date of endorsement.

Mortgagees retaining eCBs are not required to maintain a separate version of the eCB indexed for electronic submission to HUD.

If HUD requests a case binder that is maintained electronically, the Mortgagee must follow the requirements in the eCB Developer's Guide.

8. Programs and Products

a. 203(k) Rehabilitation Mortgage Insurance Program (04/18/2023)

i. Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance outstanding indebtedness on the Structure and the Real Property on which the Structure is located;
- purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located; or
- rehabilitate the interior space of an eligible Condominium Unit excluding any areas that are the responsibility of the Condominium Association.

Structure refers to a building that has a roof and walls, stands permanently in one place, and contains single or multiple housing units that are used for human habitation. For 203(k) Rehabilitation Mortgage eligibility, a one-family dwelling unit in a multi-unit Condominium Project may be considered a single-unit Structure and a townhouse in townhouse-style condominium may be considered a single-unit Structure provided each townhouse-style unit is separated by a one and one-half hour firewall from foundation to roof.

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

(A) Types of 203(k) Rehabilitation Mortgages

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

(1) Standard 203(k)

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

(2) Limited 203(k)

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used. The total rehabilitation costs must not exceed $35,000. For the first 15,000 Mortgages secured by Properties in Qualified Opportunity Zones (QOZ) during each calendar year through December 31, 2028, the total rehabilitation costs must not exceed $50,000. FHA will provide advance notice via Mortgagee Letter suspending such increase prior to the 15,000 mortgage limit being reached. There is no minimum rehabilitation cost. A list of QOZs is available from the Treasury Department's Community Development Financial Institutions Fund.

(B) Eligible Supplemental Programs and Products

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

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

ii. Borrower Eligibility

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

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

iii. Property Eligibility

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

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

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

The following property types may be financed:

- a one- to four-unit Single Family Structure, including a Condominium Unit;
- a Site Condominium unit;
- Manufactured Housing where the rehabilitation does not affect the structural components of the Structure that were designed and constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and must comply with all other requirements for Manufactured Housing;
- a Mixed Use Property with one- to four-residential units, provided:
    - 51 percent of the Gross Building Area (GBA) is for residential use; and
    - commercial use will not affect the health and safety of the occupants of the residential Property; and

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

(A) Dwelling Unit Limitation

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

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

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

(B) Required Documentation

The Mortgagee must obtain the following documentation:

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

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

iv. Application Requirements

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

v. Case Number Assignment Data Entry Requirements

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

(A) 203(k) Program Type Indicator

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

(B) Consultant Identification Number

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

(C) Automated Data Processing Code

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

(D) Construction Code

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

(E) Refinance Type

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

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

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

vi. Standard 203(k) Transactions

(A) Standard 203(k) Eligible Improvements

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

(1) Types of Improvements

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

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

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR and meet or exceed local building codes. For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice.

(b) Specific Improvement Standards

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

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

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

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

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

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

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

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

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

Exception for Borrowers Doing Own Work

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

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

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

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

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

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

(E) Standard 203(k) Financeable Contingency Reserve

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

The Mortgagee must refer to the following chart to determine when a Contingency Reserve is required. The minimum and maximum Contingency Reserve is established as a percentage of the financeable repair and improvement costs.

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

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

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

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

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

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

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

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

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

(G)Standard 203(k) Financeable Mortgage Fees

The Mortgagee may finance the following fees and charges.

(1) Origination Fee

The Mortgagee may finance a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the financeable repair and improvement costs and fees, financeable Contingency Reserves, and financeable Mortgage Payment Reserves.

(2) Discount Points

The Mortgagee may finance a portion of the Borrower-paid Discount Points not to exceed an amount equal to the discount point percentage multiplied by the total of financeable repair and improvement costs and fees, financeable Contingency Reserves, and financeable Mortgage Payment Reserves.

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

(1) Review of Contractor Qualifications

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

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

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

(3) Architectural Exhibits

The Mortgagee must obtain and review all applicable architectural exhibits.

(4) Sales Contract

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

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

vii. Limited 203(k) Transactions

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and nonstructural repairs. The total rehabilitation costs may not exceed $35,000. For the first 15,000 Mortgages secured by Properties in QOZs during each calendar year through December 31, 2028, the total rehabilitation costs must not exceed $50,000. FHA will provide advance notice via Mortgagee Letter suspending such increase prior to the 15,000 mortgage limit being reached. There is no minimum repair cost. A list of QOZs is available from the Treasury Department's Community Development Financial Institutions Fund.

(1) Types of Improvements

Eligible improvement types include, but are not limited to:

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

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR and meet or exceed local building codes.

(b) Specific Improvement Standards

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

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

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

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

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

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

- barbecue pits, outdoor fireplaces or hearths;
- bath houses;
- tennis courts;
- satellite dishes;
- tree surgery (except when eliminating an endangerment to existing improvements);
- photo murals; or
- gazebos.

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

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

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

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

Exception for Borrowers Doing Own Work

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

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

The following costs and fees may be financed:

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

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

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

(E) Limited 203(k) Financeable Contingency Reserves

A Contingency Reserve is not mandated; however, at the Mortgagee's discretion, a Contingency Reserve account may be established and may be financed. The Contingency Reserve account may not exceed 20 percent of the financeable repair and improvement costs.

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

(F) Limited 203(k) Financeable Mortgage Fees

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

(1) Origination Fee

The Mortgagee may include a portion of the Borrower-paid origination fee not to exceed the greater of $350, or 1.5 percent of the total of the financeable repair and improvement costs and fees and financeable Contingency Reserves.

(2) Discount Points

The Mortgagee may include a portion of the Borrower-paid Discount Points not to exceed an amount equal to the discount point percentage multiplied by total of financeable repair and improvement costs and fees and financeable Contingency Reserves.

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

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

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

(H) Limited 203(k) Required Documentation

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

(1) Work Plan

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

(2) Written Proposal and Cost Estimates

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

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

(3) Sales Contract

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

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

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

(A) Establishing Value

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

(1) Appraisal Reports

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

Adjusted As-Is Value. If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value.

(2) Adjusted As-Is Value

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

(a) Purchase Transactions

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

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

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

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

(b) Refinance Transactions

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

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

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

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

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

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

Existing debt includes:

- the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
- the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
- interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages.

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

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

The Adjusted As-Is Value is the As-Is Property Value.

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

(3) After Improved Value

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

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

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

ix. Maximum Mortgage Amount for Purchase

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

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

For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or $100 Down sales incentive, the Mortgagee must calculate the maximum mortgage amount that FHA will insure in accordance with HUD REO purchasing.

x. Maximum Mortgage Amount for Refinance

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

1. the existing debt and fees associated with the new Mortgage, plus:
   - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
   - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
   - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
   - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
2. the appropriate LTV ratio below, multiplied by the lesser of:
   - the Adjusted As-Is Value, plus:
     - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
     - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
     - Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k); and
     - Financeable Mortgage Payment Reserves, for Standard 203(k) only; or
   - 110 percent of the After Improved Value (100 percent for condominiums); or
3. the Nationwide Mortgage Limits.

(A) Loan-to-Value Ratios for Refinance

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

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

For Secondary Residences, the maximum LTV is 85 percent.

(B) Required Documentation

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

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

The Mortgagee must calculate the maximum mortgage amount without factoring in the cost of Energy Efficient Mortgage (EEM) items, Weatherization items, and solar energy systems. The Mortgagee may then add the cost of these improvements to determine the Base Loan Amount. The Base Loan Amount may not exceed 110 percent of the After Improved Value of the Property (100 percent for condominiums).

For Limited 203(k) transactions, the costs for energy improvements can be in addition to the $35,000 limit on total rehabilitation costs, or in addition to the $50,000 limit on total rehabilitation costs for the first 15,000 Mortgages secured by Properties in QOZs during each calendar year through December 31, 2028. FHA will provide advance notice via Mortgagee Letter suspending such increase prior to the 15,000 mortgage limit being reached. A list of QOZs is available from the Treasury Department's Community Development Financial Institutions Fund.

xii. Combined Loan-to-Value

(A) Secondary Financing Provided by Governmental Entities, Homeownership and Opportunity for People Everywhere Grantees, and HUD-Approved Nonprofits

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing meeting the requirements found in Governmental Entities, Homeownership and Opportunity for People Everywhere (HOPE) Grantees, and HUD-Approved Nonprofits.

(B) Secondary Financing Provided by Family Members

There is no maximum CLTV for secondary financing meeting the requirements found in Family Members.

(C) Secondary Financing Provided by Private Individuals and Other Organizations

The maximum CLTV for secondary financing provided by private individuals and other organizations is 110 percent of the After Improved Value. Secondary financing provided by private individuals and other organizations may not be used to meet the Borrower's minimum downpayment requirement.

xiii. Mortgage Insurance Premium

The Mortgagee must comply with the MIP requirements found in the MIP Chart.

For the purpose of calculating the LTV for application of the MIP, the Mortgagee must divide the Base Loan Amount by the After Improved Value.

xiv. Underwriting

The Mortgagee must comply with the underwriting requirements found in Origination through Post-closing/Endorsement and the additional guidance provided below.

(A) Required Documentation Standard 203(k) and Limited 203(k)

(1) Identity-of-Interest Certification

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

Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction.

Sales transactions between Family Members and tenants/landlords that meet the requirements for the exception in Exceptions to the Maximum LTV are permitted. The Mortgagee must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.

If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, the Mortgagee may select the same 203(k) Consultant for the project without creating an Identity of Interest.

(a) Borrower's Certification

The Borrower must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) and (Mortgagee), that I/We ___ do or ___do not have an identity-of-interest with the seller. I/We do not have an identity-of-interest with the 203(k) Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, 203(k) Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company or investment club and I/We ___will or ___will not occupy the residence I/We are purchasing or refinancing."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

________________________________ ________________________

Borrower's Signature *Date*

________________________________ ________________________

Co-borrower's Signature *Date*

(b) 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent, appraiser, plan reviewer, contractor, subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C 1001, 1010, 1012; 31 U.S.C 3729, 3802).

________________________________ ________________________

Consultant's Signature *Date*

(2) Borrower Acting as General Contractor or Doing Own Work (Self-Help)

The Mortgagee must document approval for the Borrower to act as the general contractor or to complete their own work.

- The Mortgagee must verify and document that the Borrower is either a licensed general contractor or can document experience in completing rehabilitation projects.
- The Mortgagee must ensure the Borrower demonstrates the necessary expertise and experience to perform the specific repair competently and in a timely manner.
- The Mortgagee must instruct the Borrower of the requirement to maintain complete records showing the actual cost of rehabilitation, including paid receipts for materials and Lien Waivers from any subcontractors.
- The Mortgagee must ensure all permits are obtained prior to commencement of work.
- The Mortgagee must obtain Cost Estimates that clearly state the cost for completion of each Work Item, including the cost of labor and materials; however, only materials cost will be reimbursed.
- The Mortgagee must obtain a signed Rehabilitation (Self-Help) Loan Agreement from the Borrower.

(3) Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, the Mortgagee must ensure the repairs are included in the Consultant's final Work Write-Up or the Borrower's final work plan.

(4) *203(k) Borrower's Acknowledgment* (Form HUD-92700-A)

The Mortgagee must obtain an executed form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

(5) Feasibility Study

If a Feasibility Study was performed to determine if the project is financially feasible, the Mortgagee must obtain a copy of the study.

(6) Borrower Contractor Agreement

The Mortgagee must obtain a written agreement between the Borrower and the general contractor, or if there is no general contractor, for each contractor. The contractor must agree in writing to complete the work for the amount of the Cost Estimate and within the allotted time frame.

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate

The Mortgagee must obtain the final Work Write-Up and Cost Estimate from the Consultant. The final Work Write-Up must include all required repairs and improvements to meet HUD's Minimum Property Standards (MPS) and MPR (as applicable) and the Borrower's electives.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

(2) Architectural Exhibits

The Mortgagee must obtain and review all required architectural exhibits included in the Consultant's final Work Write-Up.

(3) Consultant/Borrower Agreement

The Mortgagee must obtain a written agreement between the Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection," as detailed in the disclosure form HUD-92564-CN, *For Your Protection Get a Home Inspection*.

(C) Required Documentation for Limited 203(k) Only

Contractor's Cost Estimate

The Mortgagee must obtain the final contractor's itemized estimate of the repairs and improvements to be completed for all Work Items.

xv. Closing

(A) Standard

The Mortgagee must comply with requirements found in the Closing section and the additional guidance provided below.

There is only one closing that includes the rehabilitation funds. The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

(1) Establishing the Rehabilitation Escrow Account

(a) Standard 203(k)

The Mortgagee must establish an interest-bearing rehabilitation escrow account to include, as applicable:

- Standard 203(k) Financeable Repair and Improvement Costs and Fees;
- Standard 203(k) Financeable Contingency Reserves;
- Standard 203(k) Financeable Mortgage Payment Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(b) Limited 203(k)

The Mortgagee must establish an interest-bearing rehabilitation escrow account to include, as applicable:

- Limited 203(k) Financeable Repair and Improvement Costs and Fees;
- Limited 203(k) Financeable Contingency Reserves;
- the cost of EEM, weatherization or solar energy systems improvements; and
- the Borrower's own funds for Contingency Reserves.

(c) Escrow Closeout Certification Screen

The Mortgagee must complete all applicable fields on the Escrow Closeout Certification screen in FHAC.

(2) Initial Draw at Closing

The Mortgagee must document the amount and purpose of an initial draw at closing on the form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(a) Standard 203(k)

For Standard 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- prepaid architectural or engineering fees;
- prepaid Consultant fees;
- origination fees;
- Discount Points;
- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and

- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

For any Disbursements paid to the contractor, the Mortgagee must hold back 10 percent of the draw request in the Contingency Reserve.

(b) Limited 203(k)

For Limited 203(k) transactions, Mortgagees may disburse the following at closing:

- permit fees (the permit must be obtained before work commences);
- origination fees;
- Discount Points; and
- up to 50 percent of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

(B) Required Documentation

(1) Rehabilitation Loan Agreement

The Mortgagee and Borrower must execute the Rehabilitation Loan Agreement, which establishes the conditions under which the Mortgagee will disburse the rehabilitation escrow account funds.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

The Mortgagee must review the 203(k) Consultant's Work Write-Up to determine the time frame for completion of repairs not to exceed six months.

(b) Limited 203(k) Rehabilitation Period

The Mortgagee must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed six months.

(2) Security Instrument and Rehabilitation Loan Rider

If the Mortgage involves releases from the rehabilitation escrow account, the following language must be placed in the security instrument:

"Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this mortgage and made a part hereof."

The Rehabilitation Loan Rider is a required modification to a security instrument.

xvi. Data Delivery/203(k) Calculator

The 203(k) Calculator enables Mortgagees to calculate the Maximum Mortgage amount, LTV for MIP, and the amount to establish a repair escrow when required for all 203(k) transactions.

Required data for the 203(k) Calculator are:

- 203(k) Program Type (Standard 203(k) or Limited 203(k));
- As-Is Property Value;
- Adjusted As-Is Value;
- After Improved Value;
- existing debt on the Property for a refinance;
- credit for lead-based paint stabilization per HUD REO contract (if applicable);
- Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
- Financeable Contingency Reserves, for Standard 203(k) or Limited 203(k);
- Financeable Mortgage Payment Reserves, for Standard 203(k) only;
- Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
- cost of EEM or solar energy systems improvements; and
- principal balance of secondary financing provided by private individuals and other organizations.

For applications to be endorsed prior to the availability of data delivery functionality in FHAC, the Mortgagee must detail the data delivery requirements shown above on form HUD-92900-LT, or include the applicable 203(k) Maximum Mortgage Calculation Worksheet.

xvii. Post-closing and Endorsement

The Mortgagee must comply with requirements in Post-closing and Endorsement.

203(k) Mortgages are eligible for endorsement after the initial mortgage proceeds are disbursed and a rehabilitation escrow account is established.

(A) Rehabilitation Period

The rehabilitation period starts when the Mortgage is funded.

The rehabilitation period is specified in the Rehabilitation Loan Agreement.

(B) Extension Requests

If the work is not completed within the rehabilitation period specified in the Rehabilitation Loan Agreement, the Borrower may request an extension of time and must submit adequate documentation to justify the extension. The Mortgagee may grant an extension at its discretion only if the Mortgage Payments are current or the Borrower is complying with the terms of the forbearance.

(1) Required Documentation

The Mortgagee must obtain:

- evidence that the Mortgage is current or the Borrower is complying with the terms of the forbearance;
- an explanation for the delay from the Borrower, contractor, or Consultant; and
- a new estimated completion date.

(2) Escrow Closeout Certification Screen

The Mortgagee must complete the required fields on the Escrow Closeout Certification screen in FHAC to document the approval or the denial for the extension request of the rehabilitation period specified in the Rehabilitation Loan Agreement.

(C) Failure to Start or Complete Work

As stated in the Rehabilitation Loan Agreement, the Mortgagee may consider the Mortgage to be in default if work:

- has not started within 30 Days of the Disbursement Date;
- ceases for more than 30 consecutive Days; or
- has not been completed within the established time frame, or an extended time frame approved by the Mortgagee.

If the Mortgagee considers the Mortgage to be in default for failure to start or complete work, and the Mortgage is not in payment default, the Mortgagee must apply any unused rehabilitation funds toward the principal amount.

xviii. Rehabilitation Escrow Account

When the Mortgage closes, the Mortgagee must place all proceeds designated for the rehabilitation, including the Contingency Reserve, inspection fees and any Mortgage Payments, in an interest-bearing escrow account.

- The Mortgagee must pay the net income earned by the rehabilitation escrow account to the Borrower through an agreed upon method of payment.
- The Mortgagee may allow net income to accumulate and be paid in one lump sum after completion of the rehabilitation.

- The Mortgagee that is the custodian of the repair escrow funds is responsible for ensuring all funds from the escrow account are properly distributed.

(A) Accounting of 203(k) Rehabilitation Funds

The Mortgagee must utilize an accounting system that records all transactions from the rehabilitation escrow account and which documents the amount escrowed for each of these categories:

- repairs
- Contingency Reserve
- inspection fees
- title update fees
- Mortgage Payments
- other fees (i.e., architectural and engineering fees, Consultant fees, permits, supplemental origination fee and Discount Points on repair costs)

The accounting system must provide:

- the Borrower’s name and property address
- the FHA case number
- the Closing Date
- the scheduled completion date
- the amount of funds in the rehabilitation escrow account
- the interest rate provided on the escrow account

For each draw on the escrow account, the accounting system must record:

- a list of Disbursements
- the number of Days in escrow
- the amount of money in the account
- the interest earned for the applicable time period
- the balance of interest remaining in the account

(B) Project Management

Mortgagees must ensure work is completed on schedule and workmanship is acceptable.

When notified of an issue, Mortgagees must intercede in disagreements among Borrowers, contractors, or Consultants.

(1) Health and Safety

The Mortgagee must ensure that all health and safety items not in the original Work Write-Up or work plan that are discovered during the rehabilitation period are addressed by completion of a change order.

(2) Change Order Request

The Mortgagee must obtain form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, from the Consultant or inspector if there are any deviations from the Work Write-Up. The Mortgagee must approve the change order before any work can be done.

(C) Escrow Administration

The Mortgagee is fully responsible for authorizing draw inspections, managing the rehabilitation escrow account, and approving the associated draws from the account.

It is the Mortgagee's responsibility to ensure that any inspections are completed in a quality and timely manner, regardless of who performs the inspections.

(1) Release of Funds

The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all federal, state, and local laws, codes and ordinances, including any required permits and inspections.

The Mortgagee may release funds for lead-based paint stabilization only when a state- or EPA-certified lead-based paint inspector, certified risk assessor or sampling technician, independent of the firm that performed the stabilization, performs the clearance examination and clearance is obtained.

For an existing Structure moved to a new foundation or a Structure that will be elevated, the Mortgagee must not release mortgage proceeds for the existing Structure on the non-mortgaged Property until the new foundation has been properly inspected and the Structure has been properly placed and secured to the new foundation.

The Mortgagee must obtain Lien Waivers, or equivalent, at the time of any Disbursement of funds to ensure the validity of the first lien on the Property. If all Work Items performed by a contractor have not been completed at the time of draw request, the Mortgagee must obtain a partial conditional Lien Waiver for the Work Items that have been completed for each draw request.

For repairs made by the Borrower under a self-help agreement, the Mortgagee is permitted to release funds for materials only.

When the rehabilitation escrow account includes Mortgage Payment Reserves, the Mortgagee must make monthly Mortgage Payments directly from the interest-bearing reserve account. Once the Property is able to be occupied, application of the Mortgage Payment Reserves will cease. Mortgage Payment Reserves remaining in the reserve account after occupancy of the Property must be used to reduce the mortgage principal.

(a) Draw Request

The Mortgagee must obtain an executed form HUD-9746-A, *Draw Request Section 203(k)*, from the 203(k) Consultant, or from the Borrower when there is no 203(k) Consultant, requesting the release of escrow funds for completed Work Items.

The Mortgagee must review and approve each draw request to ensure that the work for which funds are being requested has been completed satisfactorily and that the form has been properly executed by the Borrower, contractor and Consultant, if any.

The Mortgagee may not approve a draw request for work that is not yet complete.

The Mortgagee may not approve draw requests for materials for work that is not completed, except for:

- materials costs for items prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
- up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

(b) Change Orders

Work must be 100 percent complete on each change order item before the release of funds for the Work Items from the rehabilitation escrow account.

(c) Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the rehabilitation escrow account.

Exception

When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.

(d) Timeliness of Release

The Mortgagee must release funds within five business days after receipt of a properly executed draw request and title update when necessary.

(i) **Standard 203(k) Release of Funds**

Maximum Draw Requests

The Mortgagee may approve a maximum of five draw requests (four intermediate and one final).

Contingency Reserve

To allow use of contingency funds for improvements other than health and safety when rehabilitation is incomplete, the Mortgagee must determine that it is unlikely that any health or safety deficiency will be discovered, and that the Mortgage will not exceed 95 percent of the After Improved Value.

When the rehabilitation is complete, the Borrower may use the Contingency Reserve account to fund additional improvements not included in the original Work Write-Up.

The Mortgagee must obtain a change order detailing the additional improvements, including the costs of labor and materials.

The Mortgagee must inform the Borrower in writing of the approval or rejection of the request to use funds from the Contingency Reserve account for additional improvements within five business days.

Method of Payment

The Mortgagee will release escrow funds upon completion of the rehabilitation in compliance with the Work Write-Up.

The Mortgagee must issue checks to both the Borrower and contractors as co-payees, unless the Borrower provides written authorization, at each draw, to issue the check directly to the contractor.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

***(ii)* Limited 203(k) Release of Funds**

Maximum Number of Draw Requests

The Mortgagee may approve a maximum of two draw requests per contractor or the Borrower (if acting as the contractor).

When necessary, the Mortgagee may arrange a payment schedule, not to exceed two releases, per specialized contractor (an initial release plus a final release).

Total Repair Costs Less Than or Equal to $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by obtaining contractor's receipts or a signed Borrower's Letter of Completion. The Mortgagee is not required to perform or have others perform inspections of the completed work.

The Mortgagee may choose to obtain or perform inspections if they believe such actions are necessary for program compliance or risk mitigation. If the Mortgagee determines that an inspection by a third party is necessary to ensure proper completion of the proposed repair or improvement item, the Mortgagee may charge the Borrower for the costs of no more than two inspections per contractor.

Total Repair Costs Exceeding $15,000

The Mortgagee must ensure that the repairs and/or improvements have been completed by performing an inspection or by obtaining an inspection by a third party to determine that the repairs have been satisfactorily completed. The Mortgagee must obtain a signed Borrower's Letter of Completion.

Contingency Reserve

The Mortgagee must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

Method of Payment

The Mortgagee will release rehabilitation escrow funds upon completion of the rehabilitation in compliance with the work plan.

The Mortgagee may issue checks solely to the contractor, or issue checks to the Borrower and the contractor as co-payees.

The Mortgagee may issue the check directly to the Borrower alone if the release is for:

- materials for work performed under a self-help agreement; or
- materials for items prepaid by the Borrower under contract with the supplier.

(2) Final Escrow Closeout

The Mortgagee must include the interest earned in the final payment on the rehabilitation escrow account and may include the total of all Holdbacks. However, if it is required to protect the priority of the security instrument, the Mortgagee may retain the holdback for a period not to exceed 35 Days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state Lien Waiver laws or other state requirements.

(a) Standard

(i) **Standard 203(k)**

Before final release of rehabilitation escrow funds, the Mortgagee must approve the final inspection and draw request signed by the Consultant, contractor, and Borrower.

(ii) **Limited 203(k)**

Before a final release is made to any contractor, the Mortgagee must determine that all work by the contractor has been completed, is acceptable by the Borrower, and all necessary inspections have been made with acceptable documentation.

(b) Required Documentation for Both Standard 203(k) and Limited 203(k)

The Mortgagee must:

- obtain the Borrower's Letter of Completion signed by the Borrower indicating satisfaction with the completed work and requesting a final inspection and final release of funds;
- obtain a CO, or equivalent, if required by the local jurisdiction;
- obtain all inspections required by the local jurisdiction;
- complete the Final Release Notice authorizing the final payment;
- provide the Mortgagee's extension approval if applicable; and
- obtain a release of any and all liens arising out of the contract or submission of receipts, or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

(3) Contingency Release

The Mortgagee must inform the Borrower of its approval or rejection of the Borrower's request for funds to be made available from the Contingency Reserve account for the purpose of improvements.

A Borrower who established the Contingency Funds with their own funds may receive a refund of their funds, or may request the remaining funds be applied toward the principal balance.

For Standard 203(k), the Mortgagee must either make funds available for additional improvements or apply the funds toward the principal balance if the Contingency Reserve was financed.

For Limited 203(k), the Mortgagee must apply the funds toward the principal balance if the Contingency Reserve was financed.

(4) Mortgage Payment Reserve

Mortgage Payment Reserves remaining in the reserve account after the Final Release Notice is issued must be used to reduce the mortgage principal.

(5) Escrow Closeout Certification

(a) Standard

After the rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

(b) Required Documentation

The Mortgagee must certify that the following documents were reviewed and verified for accuracy:

- Final Release Notice
- Borrower's Letter of Completion
- title update/Lien Waivers
- draw request forms and inspection reports
- change orders
- Mortgagee accounting of the rehabilitation escrow account and payment ledgers
- contingency release letters

xix. Quality Control

HUD will hold Mortgagees and 203(k) Consultants fully accountable for the mortgage proceeds.

Mortgagees must exercise due diligence with regard to the full scope of the 203(k) Consultant's services. Standards for the 203(k) Consultant's performance must be clearly defined in the Mortgagee's Quality Control Plan and should be provided to each Consultant that the Mortgagee relies on in the 203(k) program. Mortgagees must evaluate and document the performance of these Consultants on at least an annual basis, to include a review of the Consultant's actual work product.

xx. Servicing

(A) Delinquencies

If the Mortgage is Delinquent, the Mortgagee may refuse to make further releases from the rehabilitation escrow account. Mortgagees must treat Mortgages in forbearance, where the Borrower is complying with the terms of the forbearance, as not delinquent for the purpose of administering repair escrow.

(B) Payment Default

The project must stop if the Mortgage is in payment Default. The Mortgagee must obtain an inspection of all repairs that have been completed up until this point by the 203(k) Consultant for a Standard 203(k), or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

The inspection obtained by the Mortgagee must also note any items that are required to be completed to protect the interest of the collateral from deteriorating, such as a roof, and health and safety items for a Property that is occupied. The Mortgagee must ensure the completion of any Work Item that the inspection determines is necessary to protect the occupants and/or the collateral. The Mortgagee may use the services of the mortgagor's contractor, if appropriate, or may engage the services of another qualified contractor to complete the Work Item. The Mortgagee may approve a subsequent release of funds for that Work Item.

The Mortgagee has the option to call the Mortgage due and payable.

If the default is cured, the project may resume.

(C) Bankruptcy

The Mortgagee may not approve further advances if the Borrower declares bankruptcy unless otherwise required by law or as needed to protect FHA's first lien position. The Mortgagee must obtain an inspection of all repairs that have been completed by the 203(k) Consultant for a Standard 203(k) or for a Limited 203(k) by a third party. The Mortgagee may approve a release of funds for Work Items that have already been completed as of the date the work was stopped.

(D) Foreclosure of Mortgage during Rehabilitation Period

In the event of a foreclosure during rehabilitation, the Mortgagee must obtain a final inspection to determine the amount of work that has been completed since the start of construction and the cost for the work.

Using a format similar to the Final Release Notice, the Mortgagee will authorize release of rehabilitation escrow funds for the completed work and holdbacks on any previous Disbursements.

If funds remain in the rehabilitation escrow account, the Mortgagee will reduce the amount of claim (unpaid mortgage principal balance) by the unexpended funds in the rehabilitation escrow account.

The Mortgagee must submit a copy of the Final Release Notice with any insurance claim.

b. Disasters and 203(h) Mortgage Insurance for Disaster Victims (09/14/2015)

i. Definition

Section 203(h) of the National Housing Act authorizes FHA to insure Mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) Mortgages provided below, this specific guidance controls.

ii. Eligibility Requirements

(A) Borrower Eligibility

(1) Application Deadline

The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided.

(2) Principal Residence

The mortgaged Property must be the Borrower's Principal Residence.

(3) Credit Score

The Borrower must have a minimum credit score of 500.

(B) Property Eligibility

The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA).

The purchased or reconstructed Property must be a Single Family Property or a unit in an FHA-Approved Condominium Project.

(C) Minimum Required Investment/Maximum Loan-to-Value

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100 percent of the Adjusted Value. If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

(D) Underwriting

The Mortgagee should be as flexible as prudent decision making permits.

The Mortgagee is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, the Mortgagee may use alternative documentation as outlined below. Where specific requirements are not provided below, the Mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a Mortgage.

(1) Credit

For Borrowers with derogatory credit, the Mortgagee may consider the Borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

(2) Income

If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

The Mortgagee may also include short-term employment obtained following the disaster in the calculation of Effective Income.

(3) Liabilities

When a Borrower is purchasing a new house, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities. To exclude the Mortgage Payments from the liabilities, the Mortgagee must:

- obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their mortgage obligation; and
- apply any property insurance proceeds to the Mortgage of the damaged house.

(4) Assets

If traditional asset documentation is not available, the Mortgagee may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the Mortgage.

(5) Housing Payment History

The Mortgagee may disregard any late payments on a previous obligation on a Property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not three or more months delinquent on their Mortgage at the time of the disaster.

The Mortgagee may justify approval if the Borrower was three or more months delinquent if extenuating circumstances are documented by the Mortgagee.

iii. Eligibility Documentation Requirements

The Mortgagee must document and verify that the Borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage of the previous house must accompany the mortgage application. If purchasing a new house, the house need not be located in the area where the previous house was located.

iv. Refinancing Policy

Refinancing is permitted in conjunction with rehabilitation.

v. Using Section 203(k) with 203(h) for Rehabilitation

Damaged residences located in a PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the Property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k). All other Section 203(k) policy must be followed.

c. Energy Efficient Mortgages (04/29/2019)

i. Definitions

The Energy Efficient Mortgage (EEM) program allows the Mortgagee to offer financing for cost-effective energy efficient improvements to an existing Property at the time of purchase or refinancing, or for upgrades above the established residential building code for New Construction.

Cost Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

ii. Eligibility

(A) Eligible Property Types

EEM may be used with:

- New Construction Properties (one- to four-units);
- Existing Construction Properties (one- to four-units);
- condominiums (one unit); or
- Manufactured Housing.

(B) Eligible Programs and Transactions Types

The EEM program can be used in conjunction with any mortgage insurance under Title II, including:

- 203(b)
  - Purchase
  - No cash-out refinance
- 203(h) Mortgage Insurance for Disaster Victims
- 203(k) (Standard and Limited)
- Weatherization policy (Existing Construction only)

iii. Standard

Energy Package

The energy package is the set of improvements agreed to by the Borrower based on recommendations and analysis performed by a qualified home energy rater. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the Borrower desires, labor may include the cost of an EEM Facilitator (project manager).

(A) Cost-Effective Test

The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements.

(B) Cost-Effective Test for New Construction

For New Construction, the financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following:

- the latest energy code standard that has been adopted by HUD through a Federal Register notice; or
- the applicable IECC year used by the state or local building code for New Construction.

More information on this energy code can be obtained from the Department of Energy or the International Code Council.

(C) Changes to the Energy Package after Mortgage Closing

If the work that is done differs from the approved energy package, a change order along with a revised home energy audit must be submitted to the Direct Endorsement (DE) underwriter for approval. If the changes still meet the cost-effective test, no further analysis is required. If not, the funds for the work not included in the approval energy package must be used to pay down the mortgage principal.

iv. Home Energy Report/Assessment

The Borrower must obtain a home energy assessment. The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost effectiveness. The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols and procedure.

(A) Qualifications of Energy Raters/Assessors

Qualified home energy raters/assessors must be trained and certified as one of the following:

- Building Performance Institute Building Analyst Professional;
- Building Performance Institute Home Energy Professional Energy Auditor;
- Residential Energy Services Network Home Energy Rater; or
- energy rater, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure and insurance requirements.

The home energy report must reflect one of the above professional credentials by the rater/assessor.

(B) Home Energy Report

The home energy report reflects recommendations of energy-saving improvements for the Borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). The Mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

(C) Home Energy Report for New Construction

On newly constructed housing, the home energy report must identify improvements that are over and above the greater of the following:

- the requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice; or
- the applicable IECC year used by the state or local building code for New Construction.

(D) Required Documentation

The Mortgagee must obtain a copy of the home energy report. This report must not be greater than 120 Days old.

The Mortgagee must submit two forms HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary* as described in the Underwriting Section below.

v. Maximum Financeable Energy Package

The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of:

- the dollar amount of a cost-effective energy package as determined by the home energy audit; or
- the lesser of 5 percent of:
  - the Adjusted Value;
  - 115 percent of the median area price of a Single Family dwelling; or
  - 150 percent of the national conforming mortgage limit.

Energy Efficient Mortgage Calculator Tool

The Mortgagee must calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package. The EEM Calculator, located in FHA Connection (FHAC) on the Case Processing screen, will perform the calculation of Maximum Financeable Energy Package. The EEM Calculator uses data entered for the Mortgage to calculate the maximum energy package.

For a Streamline Refinance, the EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.

vi. Maximum Mortgage Amount

The maximum final Base Loan Amount is determined by adding the maximum financeable energy package amount to the initial maximum Base Loan Amount. For New Construction, the cost of the financeable energy package must be subtracted from the sales price when computing the Adjusted Value.

When utilizing an EEM in conjunction with a 203(k) or Weatherization, the items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs.

The maximum FHA Nationwide Mortgage Limit for an area may be exceeded by the maximum financeable energy package.

vii. Underwriting

The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

(A) TOTAL Mortgage Scorecard

For purposes of submission to the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, the Mortgagee must utilize the initial Base Loan Amount prior to the addition of the financeable energy package.

If the Mortgagee obtains an Accept or Approve on a mortgage application that does not include the financeable energy package, FHA will recognize the risk rating from TOTAL Mortgage Scorecard and permit the increase to the Mortgage Payment without re-underwriting or rescoring. The Mortgagee must provide a form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, without the financeable energy package, showing the qualifying ratios in the case binder. A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder.

The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the Mortgage and the Property to be in compliance with FHA's underwriting instructions.

(B) Manual Underwriting

The Mortgagee must provide a form HUD-92900-LT, without the financeable energy package, showing the qualifying ratios in the case binder. A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder.

The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the Mortgage and the Property to be in compliance with FHA's underwriting instructions.

viii. Appraisals

For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the Property. If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.

On the 203(k) program, the After Improved Value is to be used for the EEM process.

ix. Cash-Out

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal Mortgage balance.

x. Energy Efficient Mortgage Escrows

For all Mortgages on existing Properties, except 203(k), if the energy package items are not complete by the time of closing, the Mortgagee must establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements.

(A) 203(k)

If the energy package is part of a Section 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

(B) Borrower Labor

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

(C) Form HUD-92300, *Mortgagee's Assurance of Completion*

When funds to complete the energy package are escrowed, the Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for the energy package improvements has been established.

xi. Completion Requirements for Energy Efficient Mortgages

With the exception of 203(k), the energy package is to be installed within 90 Days of the mortgage Disbursement. If the work is not completed within 90 Days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

For 203(k) Mortgages, the Mortgagee must follow the 203(k) escrow guidance.

xii. Inspection

The Mortgagee, the rater, or an International Code Council (ICC) Residential Combination Inspector (RCI) or Combination Inspector (CI) may inspect the installation of the improvements. The Borrower may be charged an inspection fee.