Section 6.1: FHA

6.1- A Overview

Note: The underwriting information contained in this chapter is intended for use in conjunction with HUD Handbook 4155.1 and subsequent applicable mortgagee letters.

6.1-B General

6.1-B1 Eligible Loan Programs

- 203(b) – Most frequently used loan program. Purchase or refinance. 1-4 unit properties.
- 234(c) – Condominium. The Condo project must be on the HUD approved condo list.
- Energy Efficient Mortgage – May be used with most FHA property and loan types.
- Good Neighbor Next Door – Available on some HUD owned properties. If the borrower is a civil servant, HUD may subsidize up to 50% of the purchase price.
- 203h Disaster- Increased financing for victims of natural disasters

6.1-B2 Ineligible Loan Programs/Transactions

- 203k Rehabilitation – Financing for home improvements
- 248 Native American – Financing for tribal members on leasehold property located on reservations
- 247 Hawaiian Home Lands – Financing for homes in Hawaii that are under a homestead lease on Hawaiian Home Lands.
- A restructured or short payoff in which the terms of the original transaction have been changed, resulting in either the forgiveness of debt or restructure of debt through a modification of the original loan or origination of a new loan (see the Credit section 3.3)
- FHA cash out loans in the state of Texas

6.1-B3 Allowable Fees

SecurityNational Mortgage may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage. Borrower may not pay a tax service fee.

Maximum net broker compensation “rebate” on FHA loans is 4%.

6.1-B4 Assumability

Assumable by qualified borrower
6.1-B General (cont’d)

6.1-B5 Borrower Eligibility

Maximum borrowers on a transaction are four
Borrowers must provide evidence of a valid Social Security number.

- Evidence includes a copy of the borrowers Social Security card, paystub, W-2, or other government-issued card that includes the borrower’s Social Security number.
- In addition, FHA requires validation of Social Security numbers for consistency with the borrower’s name and date of birth through FHA connection on ECHO systems or its equivalent. Underwriters must resolve issues regarding Social Security numbers before loans are delivered for purchase.

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

Eligible Borrowers
- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens
- Non-Occupant Co-borrowers

Ineligible Borrowers
- Individuals with any of these visa types: A-1, A-2, F-1, F-2, M-1

Residency
Permanent and non-permanent resident aliens are eligible provided they:

- Occupy the property as a principal residence
- Have a valid social security number
- Are eligible to work in the United States

Please see the 4155.1 4.A.3 for more details.

6.1-B6 Doc Type
Full

6.1-B7 Impound Accounts
Escrow waivers are not allowed. Escrow/impound account is required to cover the costs of taxes and insurance.

6.1-B8 Interest Only
Not available
6.1-B General (cont’d)

6.1-B9 Loan Amount

**Maximum Loan Amount:**

For loan amounts over $417,000, please follow the jumbo guidelines. The loan amount may never exceed the 2011 geographical statutory limit except by the amount of any new UFMIP, even if the loan is a streamline refinance. The current loan limits will remain effective for final credit approval dates on or before September 30, 2011.

All loans up to $417,000.00 are coded as an F-F30. All loan amounts ≥ $417,001 or ≥$625,501 in Hawaii are coded as an F-F30J9. All loan amounts over $650,000.00 require a second signature from a corporate underwriter. Loan amount, LTV, and FICO guidelines listed are effective for all loans, even in Hawaii.

All loan amounts over $650,000 require a second signature from a corporate underwriter.

6.1-B10 LTV/CLTV Parameters

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<td>Units</td>
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<td>Units</td>
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<td>CLTV</td>
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¹ See Subordinate Financing guidelines for maximum CLTV guidelines in Credit Policy 6.1-J
² Maximum 100% including UFMIP
³ CLTV may be increased to 125% if priced and underwritten to investor 07 guidelines; not applicable to CA, HI, or Dade County, Florida.
⁴ Cash out refinances over $417,000 require minimum 660 FICO
⁵ No new subordinate financing allowed (originated concurrently)

For assistance in calculating the maximum mortgage amount, please see maximum mortgage calculation worksheets in Credit Policy, Section 12.2.
6.1-B General (cont’d)

6.1-B11 Occupancy

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

- 1-4 unit family homes, PUDs, or FHA-approved condominiums
- At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied
- The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year. The only exceptions allowed are due to hardship or extenuating circumstances
- 3-4 unit properties will require an Occupancy Declaration

HUD does not insure non-owner purchase transactions. However, HUD will insure a refinance of a non-owner occupied fixed-rate loan under the Streamline Refinance program.

Mortgagor Occupancy of Former Investment Property

Effective with FHA Case numbers assigned on or after April 15, 2011, FHA has issued the following policy on borrower’s who re-occupy their investment property securing the mortgage which is being refinanced.

- If the borrower re-occupied the property 12 months or more prior to the loan application date, the loan is eligible at maximum financing as an owner occupant.
- If the borrower re-occupied the property less than 12 months prior to the loan application date, the loan is eligible for a rate/term refinance only (no streamline), with a maximum LTV of 85%.

This guideline applies to all FHA refinance transactions.

6.1-B12 One FHA Loan Limitation

Generally, FHA will not insure more than one mortgage for any borrower. Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance, exceptions to this limitation and additional information can be found in HUD Handbook 4155.1 4.B.2.

6.1-B13 Pricing

The lower of the representative scores should be used for pricing. All loans up to $417,000 are coded as an F-F30; anything $417,001 and over is coded as an F-F30J.
6.1-B General (cont’d)

6.1-B14 Temporary Interest-Rate Buydowns – NOT AVAILABLE AT THIS TIME
Temporary interest-rate buydowns are designed to reduce the borrower’s interest rate and monthly payment during the early years of the mortgage.

- 2-1 temporary buydowns are allowed on fixed-rate owner occupied purchase transactions.
- The buydown may not result in more than a 1% annual increase in the interest rate and may increase only once a year.
- Borrower must qualify at the note rate
- Allowed on 203(b) and 234(c) programs only
- Available on 30 year terms only
- Mortgage loan must be a level payment, unsubsidized mortgage
- Use the F-F30BD code and pricing

Required documentation:

- A copy of the escrow agreement signed by the borrower and provider of the funds at application
- The underwriter may condition the loan approval for an executed buydown agreement at closing
- The agreement must provide that any escrow funds not distributed at the time the loan is prepaid, be applied to the outstanding balance due
- The agreement must allow reversion of undistributed funds to the provider if the property is sold or the mortgage is prepaid in full.

6.1-B15 Term

- 15, 20, and 30 year fixed rate.
- Jumbo loan amounts are allowed with 30 year term only
- 3/1 & 5/1 ARM are allowed with 30 year term only

6.1-C ARM Guidelines

3/1 Arm

- Product code: F-A3T
- DU ARM plan: FHA HYBRID
- Margin: 2.25%
- Borrowers qualify at the note rate
- Caps: 1/1/5
- Temporary buydowns are not allowed
- 30 year term only

5/1 Arm

- Product code: F-A5T
- DU ARM plan: FHA HYBRID
- Margin: 2.25%
- Borrowers qualify at the note rate
- Caps: 1/1/5
- Temporary buydowns are not allowed
- 30 year term only
6.1-D Underwriting

6.1-D1 AUS

All loans, except Streamline refinances must be decisioned through FHA Total Scorecard. A copy of the FHA Total Scorecard must be included in the loan file. “Refer” decisions remain eligible for a manual underwriting provided the minimum FICO of 640, DTI requirements (listed 6.1-D3), and FHA guidelines are met. Regardless of the risk assessment made by DU or LP, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered herein. In addition, the DE underwriter must underwrite the appraisal according to standard FHA guidelines.

AUS Downgrade Policy

In the event that credit terms or loan information was not considered in the AUS decision, an Approve/Eligible or Accept decision must be downgraded to Refer and be manually underwritten. Circumstances requiring a downgrade, if not considered in the AUS decision, include but are not limited to:

- Delinquent federal debt, CAIVRS, and suspended and debarred individuals
- Disputed accounts, significant inaccuracy or undisclosed debt
- Previous mortgage foreclosure (within 3 years of application)
- Previous bankruptcy (within 2 years of application)
- Collection accounts, tax lien, charge-off, judgment
- Delinquent items and any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months consisting of any of the following:
  - Three or more late payments 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
- Disputed accounts- If the credit report reveals the borrower is disputing any credit accounts or public records
- Bank statements that indicate multiple non-sufficient funds (NSF) charges
  - Example: More than 1 or 2 isolated incidents over a 60 day period. An explanation for such NSFs will be required and additional asset statements may be required to decision the loan
- Failure to meet the specific conditions of an AUS approval

6.1-D2 Credit Analysis

All loans must be run through Total Scorecard through DU or LP, even if manually underwritten, except non-credit qualifying streamline refinances. If a loan receives a “refer” decision and the underwriter feels the file merits a manual underwrite, the underwriter is able to proceed without a 2nd signature, subject to the following:

- Ratio’s not to exceed 31% housing and 43% DTI
- Acceptable explanation for any major derogatory credit, and acceptable amount of time after major credit issue (bankruptcy, foreclosure, etc.), and acceptable re-establish credit.
- Acceptable VOR
- No credit delinquencies in the most recent 24 months, no outstanding collections/judgments in the most recent 24 months. No derogatory credit after a BK.
- Loans outside of these guidelines can be reviewed with the Regional Operations Manager or Credit Committee for an exception to policy prior to declination.
6.1-D Underwriting (cont’d)

6.1-D2 Credit Analysis (Cont’d)

Credit Score Requirements

- Minimum FICO score for all loans is 640 is required for all borrowers regardless of AUS approval
- Minimum FICO for Streamline refinance is 640
- Minimum FICO for High Balance Streamline refinance is 680.
- Minimum FICO for High Balance (over $417,000) cash out refinance is 660.

Non-Traditional Credit

Non-traditional credit on government loans has been eliminated. All borrowers must have traditional credit history with the exception of non-credit qualifying streamline refinances. Here’s some clarification on scenarios that you might come across.

- Two borrowers with no credit scores: Not Allowed
- One occupant borrower with a credit score and one occupant borrower without a credit score: Allowed. The reported credit score is used for qualification and non-traditional credit does not need to be built for the borrower with no credit score. Valid credit score and an automated approval through TOTAL scorecard required.
- Occupant borrower with no credit score and a non-occupant borrower with a credit score: Not allowed, because the occupant borrower would be required to build non-traditional credit which is no longer acceptable
- Occupant borrower with a credit score and a non-occupant borrower without a credit score: Not allowed. A non-occupant borrower must have credit scores.

High Balance loans: All borrowers must have a FICO score

6.1-D3 Credit History Requirements

Foreclosure Seasoning – minimum 3 years

Chapter 7 Bankruptcy Seasoning – minimum 2 years from discharge

Chapter 13 Bankruptcy Seasoning – minimum 1 year since the payout period. Must have satisfactory payment history and permission from the court

Consumer Credit Counseling – is treated the same as a Chapter 13

Judgments must be paid in full or a satisfactory repayment plan is in effect at time of application and there have been no late payments on the plan. Judgments cannot affect our lien position on title. Collection accounts do not have to be paid prior to closing. See HUD Handbook 4155.1 4.C for additional information and guidelines.
6.1-D Underwriting (cont’d)

6.1-D4 DTI requirements
Maximum ratios 31/43%- Qualifying ratios may exceed published guidelines with AUS Approval subject to the following:

- Maximum 50% DTI allowed with AUS approval
- Ratios between 50.01%-55% allowed with AUS approval, Regional Operations Manager second signature, and acceptable SNMC compensating factors listed on 92900-LT or Ratio Checklist form

In all cases the loan must have an AUS approval, and not exceed a 50% DTI ratio. If the underwriter can document at least 3 of the 5 listed compensating factors, no second signature is required.

Loans outside of these guidelines can be reviewed with the Regional Operations Manager or the Credit Policy department for an exception to policy prior to declination.

Exceptions
There are additional circumstances where an underwriter may need or want a second signature on a loan, or an exception to policy, other than the reasons listed above (for example, review of declined loans when escalation is requested). In most cases the file should be fully underwritten by the branch underwriter and their justification for approval noted on the transmittal or in a cover letter. In the instances where you want a second review without prejudice, please withhold underwriting comments and request a complete fresh underwrite for a second opinion.

6.1-D5 Compensating Factors
Compensating factors that may be used to justify approval of mortgage loans with ratios exceeding FHA guidelines are listed below. Underwriters must record in the “remarks” section of the FHA Underwriting Transmittal (Form HUD 92900-LT) the compensating factor(s) used to support loan approval. Any compensating factor used to justify mortgage approval must be supported by documentation. Acceptable compensating factors do not include employment stability or good credit as they are a requirement of loan approval. A list of the acceptable compensating factors can be found in the 4155.14.F.3.

6.1-D6 Maximum Financed Properties
The maximum number of financed properties, including subject FHA property, is 4

6.1-D7 Three to Four Unit Properties
Effective with FHA case numbers assigned on or after April 15, 2011, HUD Handbook section 4155.12.b.4 applies in its entirety to all refinance transactions, as well as purchase transactions, of 3-4 unit properties.
6.1-D Underwriting (cont’d)

6.1-D8 Non-Occupant Co-Borrowers
Non-occupant co-borrowers are allowed. Maximum financing is permitted for 1 unit properties when there is a familial relationship between borrowers. Multi-unit properties are limited to 75% CLTV regardless of relationship if using a non-occupant co-borrower. If there are two or more borrowers and one will not occupy the property as a primary residence and the borrowers are not related then the maximum mortgage is limited to 75% CLTV. Non-occupant co-borrowers cannot be added to the loan on a cash-out refinance in order to meet FHA credit underwriting standards. See the HUD Handbook 4155.1 2.B.3 for more information.

6.1-E Asset/Down payment/Closing Costs
Under most FHA programs the borrower’s minimum down payment is at least 3.5% of the lesser of the appraised value or sales price. This amount is in addition to any borrower paid closing costs. All funds to cover the minimum down payment and closing costs must come from acceptable sources and be verified and properly documented. Please see the HUD Handbook 4155.1 Chapter 5, Section B for more details.

In completing the 92900-LT the “Required” area needs to equal the total funds required for closing from the borrower. The amount listed in this area needs to be at least the borrower’s required minimum investment into the property (i.e. 3.5% down payment).

Cash reserves are not required on 1-2 unit properties. 3-4 unit properties require 3 months PITI.

6.1-E1 Closing Costs
FHA does not regulate or set the closing costs that a lender may charge. The lender can collect those closing costs that are customary and reasonable to close the mortgage. The borrowers may not pay a tax service fee.

Interested Party Contributions:
Contributions exceeding 6% of the sales price or exceeding the actual cost of prepaid expenses, discount points and other financing concessions will be treated as inducements to purchase, thereby reducing the amount of the mortgage. The 6% limitation also includes property seller payment for permanent and temporary interest rate buydowns and other payment supplements, mortgage payment protection insurance, and payment of UFMIP.

6.1-E2 Business Funds
Business funds from a partnership or corporation may not be used to meet the borrower minimum investment requirement. The funds must all be from the borrower’s personal assets. This does not apply to sole proprietorship where the personal and business funds can be comingled.

The use of business funds for closing costs and reserves is allowed for sole proprietors. When using these funds, validate the borrower’s ability to access business funds without any detrimental effect to the business and to ensure there is strength and stability within the business.

- Borrower’s ownership or interest in the business must be confirmed by documentation such as a business license, CPA letter, etc.
6.1-E Asset/Down payment/Closing Costs (cont’d)

6.1-E2 Business Funds (cont’d)

Verification of the Availability of Funds: The following requirements apply:

- **Sole Proprietor**: Verification that the borrower has 100% ownership of the business, for example using the tax returns provided or a copy of the business license.

Copies of the most recent and concurrent six months business account bank statements. The funds may be in a personal or business account. All funds must be seasoned with the source of funds for any large deposits fully documented and explained. Review the most recent bank statements provided to ascertain what is normal and typical for the business.

The file must contain evidence that the funds are not advancement against future earnings or future cash distributions. The written document must be from the accountant, CPA, or borrower if returns are self-prepared. The loan file documentation must include a review of any potential tax implications on funds received.

6.1-E3 Gift Funds

An outright gift of the required investment is acceptable if the donor is:

- Relative of the borrower defined as:
  - Child: son, stepson, daughter, or stepdaughter
  - Parent, grandparent, spouse
  - Legally adopted sons or daughters or foster children
  - Child is placed with borrower by an authorized agency for legal adoption
- Borrower’s employer or labor union
- A charitable organization (see section listed below)
- A governmental agency or public entity that provides homeownership assistance to low and moderate income families or first time homebuyers
- A close friend with a clearly defined interest in the borrower

Regardless of when gift funds are made available to the borrower, the underwriter must be able to determine that the gift funds were not provided by an unacceptable source, and were the donor’s own funds.

Only family members may provide equity credit as a gift on property being sold to other family members.

Please see Credit Policy Assets section 3.5 or 4155.1 for more information.
6.1-E Asset/Down payment/Closing Costs (cont’d)

6.1-E3 Gift Funds (cont’d)

Charitable Organizations
FHA does not approve down payment assistance programs in the form of gifts administered by charitable organizations (nonprofits). It is the underwriter’s responsibility to ensure the entity 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. In addition, FHA does not allow nonprofit entities to provide gifts to homebuyers for the purpose of paying off installment loans, credit cards, collections, judgments and similar debts. If a charitable organization loses or gives up its federal tax-exempt status, FHA will recognize the gift provided the gift is made to the homebuyer and properly documented and the homebuyer has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated. Gift funds from a nonprofit agency must be sent directly to the closing agent from the Agency. The escrow/funding agent must provide proof that the funds were received via a cashier’s check or a wire transfer from the nonprofit agency. This must be a condition of loan closing.

Unacceptable Gift Funds
Down payment cannot be from seller, real estate agent or broker, builder, lender subsidy, or any other associated entity.

A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price. Seller-funded down payment assistance programs are not eligible. This applies to where the seller is a government agency selling foreclosed properties such as the US Department of Veteran Affairs or Rural Housing.

Gift Letter Requirement
The gift letter must list the following:

- The donor’s name, address and telephone number
- Specify the dollar amount
- State the nature of the donor’s relationship to the borrower
- State that no repayment is required

The gift letter must also contain language that the funds given to the homebuyer were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan office or any entity associated with them.
6.1-E Asset/Down payment/Closing Costs (cont’d)

6.1-E3 Gift Funds (cont’d)

Gift Transfer Documentation Requirements

- If the gift funds are in the homebuyer’s account obtain:
  - A copy of the withdrawal document showing that the withdrawal is from the donor’s account
  - The borrower’s deposit slip and bank statement showing the deposit

- Funds provided at closing by certified check obtain:
  - Bank statement showing the withdrawal from the donor’s account
  - Copy of the certified check

- Funds provided at closing by cashier’s check, money order, official check, or other type of bank check obtain:
  - Have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing the funds came from the donor’s personal account.

- Funds provided at closing by wire transfer to the closing agent, obtain:
  - The donor to provide documentation of the wire transfer

6.1-F Income

FHA does not impose a minimum length of time a borrower must have held a position of employment to be eligible, however, the borrower’s employment for the most recent two full years must be verified. If a borrower indicates he or she was in school or the military during any of this time, the borrower must provide evidence supporting this claim, such as college transcripts or discharge papers. The borrower also must explain any gaps in employment spanning one month or more (6 months or more if TOTAL Scorecard Accept Recommendation). Please see the HUD Handbook 4155.1, Chapter 4.

6.1-F1 4506-T

A signed and dated IRS form 4506-T completed at application and closing is required for all borrowers. IRS transcripts dated prior to the date of closing are required and must be reconciled and included in the loan file¹. For more details, please see Credit Policy section 3.4-D.

¹ Non-income qualifying streamline refinances are exempt from this requirement.

6.1-F2 Projected Income

Projected income (generally teachers or relocation) may be used as a compensating factor only; the following items are required for a new job beginning within 60 days of closing. The following documentation is required:

- Evidence the borrower was in a same or similar employment position
- Copy of the non-revocable contract
- VOE for most recent two years of employment
- Last paystub from former employer
6.1-F Income (cont’d)

6.1-F3 Rental Income
Rent received for properties owned by the borrower may be acceptable, subject to stability of rental income and proper documentation. Examples of stability may include a current lease, an agreement to lease, or a rental history over the previous 24 months that is free of unexplained gaps greater than three months.

Rental income on the property being vacated must be reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center and may be considered under the following circumstances:

- **Relocations:** The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable commuting distance. A properly executed lease agreement of at least 1 year’s duration after the loan closes is required.
- **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (no more than 6 months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal can be an external only appraisal.

For more information, please review [Mortgagee Letter 25-2008](#). This Mortgagee Letter applies to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns.

6.1-F4 Verbal Verification of Employment Policy
See Credit Policy, [Income section 3.4-B2](#) for more details.
For FHA streamline requirements, please see section 6.1-H3.
6.1-G Identity-of-Interest

Identity-of-interest transactions on principal residences are restricted to a maximum LTV of 85%. Please see the HUD Handbook 4155.1 2.B.2 for further clarification.

Maximum financing above 85% LTV is allowed under the following circumstances:

- A family member purchasing another family member’s principal residence
- An employee of a builder purchasing one of the builder’s new homes or models as a principal residence
- A current tenant purchasing the property that the tenant has rented for at least six months predating the sales contract. A lease or other written evidence must be submitted verifying occupancy. The maximum mortgage calculation is not affected by a sales transaction between a tenant and landlord with no identity of interest relationship
- Sales by corporations that transfer employees out of an area, purchase the transferred employee’s home, and then resell to another employee

Restricted family member transactions:

- If the property being sold from one family member to another is the property seller’s investment property, the maximum mortgage is 85% of the lesser of the sales price or appraised value. **The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.

Additional Restrictions:

- If there is an identity-of-interest between the buyer and the property seller, commission from the sale or listing of the property cannot be used for the down payment

6.1-H Refinances

For all refinances, the file must include the payoff statements and calculations used for the FHA Underwriting Transmittal. The appropriate mortgage calculation worksheet located in Credit Policy Forms section 12 that identifies the payoff amount and closing costs used to calculate the loan amount must be in the file. For all no cash out and cash out refinances, at least one current borrower must be on title for a minimum of 12 months if acquisition costs cannot be documented.

Land Contracts or Properties Subject to Ground Rents

FHA has issued the following clarification on existing guidelines and must be implemented within 60 days of the Mortgagee Letter:

“HUD Handbook 4155.1 2.B.6.a, which discusses the financing limit for loan transactions which payoff land contracts with no cash out at closing, also applies in its entirety to all cash out loan transactions which payoff land contracts, as well as refinancing transactions on properties subject to ground rents. Mortgagees will treat both of these types of transactions as if they were cash out refinances on property held fee simple. “(No rate/term refinances)
6.1-H Refinances (cont’d)

6.1-H1 Eligible Transactions

- No Cash out Refinance
- Cash out Refinance
- Streamline Refinance with appraisal
- Streamline Refinance without appraisal

6.1-H2 Ineligible Transactions

- Fixed rate refinance loans made to borrowers that were delinquent on their previous mortgage
- Refinance transactions involving temporary buydowns
- Cash out refinances on FHA loans in the State of Texas
- A restructured or short payoff in which the terms of the original transaction have been changed, resulting in either the forgiveness of debt or restructure of debt through a modification of the original loan or origination of a new loan

6.1-H3 No Cash-Out Refinance

All proceeds are used to pay existing liens and costs associated with the transaction. The borrower may not receive cash back in excess of $500.00 at closing. The maximum mortgage amount calculation is the lower of 97.75% LTV (loan-to-value) or the existing debt calculation, and may never exceed the FHA county loan limit except by the new up-front MIP. The maximum CLTV for new and existing subordinate financing is 97.75% subject to the following:

- Second liens that have been permanently modified may use the modified lien amount to calculate the CLTV ratio provided an executed modification agreement is supplied.
- The second lien CLTV requirements may be more restrictive

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages), up to 60 days maximum. The existing mortgage must be current for the month due; the amount of the existing first mortgage may not include delinquent interest.

The specific mortgage amount calculations may be found in the HUD Handbook 4155.1, Chapter 3, Section B. A mortgage calculation worksheet is located in the Forms -Section 12 of Credit Policy.

Equity Line of Credit

If any portion of the funds of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, that portion above and beyond the $1,000 of the line of credit is not eligible for inclusion in the new mortgage.

Non-FHA to FHA

If the property was acquired less than one year before the loan application and is not already FHA-insured, the original sales price of the property must be used in determining the maximum mortgage. Using conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount. If acquisition costs cannot be documented, then borrower will need to be on title for a minimum of 12 months.
6.1-H Refinances (cont’d)

6.1-H3 No Cash-Out Refinance (cont’d)

FHA will allow a cash out refinance up to 85% LTV subject to the following:

- The property must be owner occupied principal residence
- Co-borrowers added to the note or currently on the note must occupy the property securing the new FHA mortgage. Non-occupant co-borrowers may not be added to the note to meet FHA credit underwriting standards.
- New or existing subordinate financing is limited to 85% CLTV.
- Existing subordinate financing may remain in place, but subordinate to the FHA insured first mortgage provided the homeowner qualifies for making scheduled payments on all liens.
- The combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county limit.
- The second liens that have been permanently modified may use the modified total lien amount to calculate the CLTV ratio provided an executed modification agreement is supplied.

If the property is encumbered by a mortgage, the borrower must have made all his/her payments within the month due for the previous 12 months. No payment may have been more than 30 days date and must be current for the month due. Borrowers who are delinquent are not eligible.

An acceptable payment history must be provided; an acceptable payment history is if the borrower is:

- Current, and
- Has made all payments for the mortgage being refinanced within the month due of the previous 12 months
- For all mortgages with more than 6 months and less than 12 months of payment history the mortgagor must have made all payments when due. Mortgages with less than 6 months of payment history are not eligible for a cash out refinance.

The specific mortgage amount calculations may be found in the 4155.1. The mortgage calculation worksheet is located in the Forms -Section 12 of Credit Policy.

Debt Consolidation

Cash out refinances for debt consolidation represent considerable risk, especially if borrower(s) have not had a corresponding increase in income. Such transactions must be carefully evaluated.

LTV calculation

If the property has been owned by the borrower as his/her principal residence for 12 months or more proceeding the date of the loan application the LTV/CLTV is based on 85% of the appraised value.

If the property has been owned by the borrower as his/her principal residence for less than 12 months preceding the date of the loan application the LTV/CLTV is limited to the lesser of 85% of the appraiser’s estimate of value, or the original sales price.

If the original sales price cannot be documented, then borrower needs to be on title for a minimum of 12 months.
6.1-H Refinances (cont’d)

6.1-H3 No Cash-Out Refinance (cont’d)

**Note:** The sales price does not need to be considered if the property was acquired as the result of inheritance and is, or will become, the heir’s principal residence

FHA cash out transactions not allowed in Texas

6.1-H4 Streamline Refinance Guidelines

**General**

Streamline refinances are subject to the following requirements:

- Lenders may use an abbreviated version of the URLA*.
- Mortgage rating showing with no lates in the most recent 12 months. For mortgages with less than a 12 months payment history, the borrower must have made all mortgage payments within the month due.
- Cash back to borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed $500.
- H-O6 Insurance is required for all FHA loans.
- If assets are needed to close, the underwriter must verify and document assets according to FHA guidelines.
- If existing subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 100%. CLTV may be increased to 125% if priced and underwritten to investor 07 guidelines; not applicable to CA, HI, or Dade County, Florida.
- For streamlines without an appraisal, the CLTV is based on the original appraised value of the property.
- Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the underwriter must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.
- Non-owner/Second home ARM loans are not eligible for the streamline refinance program.
- Streamline guidelines can be found in Chapter 6, Section C of the 4155.1
- Product Codes: F-F30S, F-F15S, F-A3TS, and F-A5TS

*SNMC requirement in regards to implementation of the abbreviated URLA is as follows:

- If an abbreviated URLA has been provided at application, the underwriter certification in regards to the borrower being employed and having income will not be required.
- If a completed URLA has been provided at application, the underwriter certification in regards to the borrower being employed and having income will still be required.

In an abbreviated URLA, the lender is not required to complete sections IV, V, VI and VIII(a) through VIII(k) provided all other information is captured.
6.1-H Refinances (cont’d)

6.1-H4 Streamline Refinance Guidelines (cont’d)

Credit
A minimum credit score of 640 is required for all borrowers. A minimum credit score of 680 is required for all streamlines with loan amounts > $417,000.00. Credit report is only used to validate the credit score.

As with all loans, SNMC needs to have the credit report pulled through E3 or reissued in our name. Currently, the reissued credit is pulled through DU. This process does not work on FHA streamlines because we do not run DU. Therefore, the only option has been to pull our own credit report with the required information. In order to accommodate FHA Streamlines, we can now use the E3 reissue option with Kroll credit reports.

1. The branch needs to make sure they have access to Kroll in the credit drop down
2. Under Order Type, select “reissue”
3. Next to the borrower’s name, select “Individual, Borrower” as Credit Request Type
4. Enter the reference number in the box next to the Credit Request Type, press submit order
5. Press Submit Order

Employment Income (this section applies when file does not contain an abbreviated URLA)
Employment/Income source must be verified at underwriting and again prior to funding. Income is not required. When submitting the loan for insurance endorsement, the underwriter must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of application. A Verbal VOE at closing must be completed as well per SNMC policy.

SNMC will require the following documentation to support that certification:

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Documentation Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried/W-2 Wage Earner</td>
<td>Verbal VOE</td>
</tr>
</tbody>
</table>
| Self-Employment Income     | Verification of SE applicant’s business

¹ Self-employment can be verified by any third party source such as CPA letter, copy of business license, etc.

If the completed loan application indicates income is from an “other income” source, documentation supporting the source of the income is required in the loan file. Refer to the list below for some examples of acceptable documentation. The Direct Endorsement (DE) Underwriter may accept documentation not listed below provided it identifies the source of the other income as well as supports the Lender Certification that the DE Underwriter is required to sign and date.
### 6.1-H Refinances (cont’d)

#### 6.1-43 Streamline Refinance Guidelines (cont’d)

<table>
<thead>
<tr>
<th>Other Income Types (not all inclusive)</th>
<th>Examples of Acceptable Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alimony/ Separate Maintenance</td>
<td>Copy of Divorce decree/settlement agreement or court payment record</td>
</tr>
<tr>
<td>Annuity</td>
<td>Most current institutional statement</td>
</tr>
<tr>
<td>Child Support</td>
<td>Copy of Divorce decree/settlement agreement or court payment record</td>
</tr>
<tr>
<td>Interest/ Dividend Income</td>
<td>Document showing ownership of interest bearing account or copy of current statement showing interest income</td>
</tr>
<tr>
<td>IRA/Keogh</td>
<td>Most current bank statement or letter from administrator</td>
</tr>
<tr>
<td>Note Income</td>
<td>Copy of Note or most current statement</td>
</tr>
<tr>
<td>Pension/Retirement</td>
<td>Most current bank statement or benefit award letter or most current W-2/1099</td>
</tr>
<tr>
<td>Rental Income</td>
<td>Copy of current lease</td>
</tr>
<tr>
<td>SS/Ret/Survivor’s/Disability Income</td>
<td>Award letter or most current deposit statement</td>
</tr>
<tr>
<td>Trust Income</td>
<td>Copy of trust agreement or trustee’s statement</td>
</tr>
<tr>
<td>VA Benefits</td>
<td>Award letter or most current deposit statement</td>
</tr>
</tbody>
</table>

### Mortgage Calculation

<table>
<thead>
<tr>
<th>Without an Appraisal</th>
<th>With an Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The maximum insurable mortgage cannot exceed:</strong></td>
<td><strong>The maximum insurable mortgage is the lower of:</strong></td>
</tr>
<tr>
<td>The outstanding principal balance¹ minus the applicable refund of the UFMIP</td>
<td>The outstanding principal balance¹ minus the applicable refund of UFMIP, plus closing costs (no discount points), prepaid items to establish the escrow account, and the new UFMIP that will be charged on the refinance;</td>
</tr>
<tr>
<td>Plus</td>
<td><strong>Or</strong></td>
</tr>
<tr>
<td>The new UFMIP that will be charged on the refinance.</td>
<td>97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance</td>
</tr>
</tbody>
</table>

¹The outstanding balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges, or escrow shortages.
6.1-H Refinances (cont’d)

6.1-H4 Streamline Refinance Guidelines (cont’d)

Mortgage Calculation (cont’d)

Non-owner occupied property: The unpaid existing principal balance may not include any interest, late charges or escrow shortages. In addition no closing costs, prepaids or discount points may be financed into the new loan amount. For more information please see the Mortgage Calculation Worksheets located in the Credit Policy Forms Section 12 or the HUD Handbook 4155.1.

Net Tangible Benefit

Effective with loan approval dates on or after February 16, 2011, this Mortgagee Letter rescinds and replaces paragraph I.C of Mortgagee Letter 2009-32. The new guidance bases the calculation of net tangible benefit on the principal and interest (P & I) and the Mortgage Insurance Premium.

The underwriter must determine there is a net tangible benefit to the mortgagor as a result of the streamline refinance transaction with or without an appraisal. FHA defines “net tangible benefit” as:

- A 5% reduction to the P & I of the mortgage payment plus the annual MIP or
- Refinancing from an Adjustable Rate Mortgage (ARM) to a fixed rate mortgage

FHA has also clarified that reducing the term of the mortgage, in and of itself, is not a net tangible benefit; therefore you are able to reduce the term and complete a streamline refinance if one of the two net tangible benefit items listed above are met. FHA has included a table defining different refinance situations and the appropriate guidance. This table is included in the Mortgagee Letter attached and will be posted separately in section 12.2 of Credit Policy as Streamline Net Tangible Benefit Table.

Property

All FHA Streamline Refinance loans that are submitted without an appraisal must have documentation to verify the property is not a manufactured/mobile home and documentation verifying the property is not located in a federally declared disaster area. If located in a disaster area, SNMC will require an exterior inspection to be performed by an FHA Approved Inspector up until the expiration date of the disaster declaration.

The information regarding manufactured/mobile home, can be obtained from several sources such as RealQuest and Zillow.com;..

Seasoning

Effective immediately, the following clarification was provided by FHA in regards to the seasoning period for streamline refinances:

- The borrower must have made at least 6 payments on the FHA-insured mortgage that is being refinanced, and
- At least six full months must have passed since the first payment due date of the refinanced mortgage, and
- At least 210 days have passed from the closing date of the mortgage being refinanced
6.1-I Mortgage Insurance

Upfront MIP can be financed into the mortgage amount or the entire amount may be paid in cash. UFMIP may not be partially financed.

In E3, the UFMIP will default to 10%. The underwriter will need to verify the correct premium upfront and monthly mortgage insurance premium and notate both percentages in the remarks section of the 92900-LT and the notes section of E-Approve. The correct figures can be determined by reviewing both the case number assignment date and the DU findings.

6.1-I1 MIP Premiums Based on Term

The following tables list the MIP amounts based on the term of the loan for case numbers assigned on or after October 4, 2010 for both purchase and all refinance types.

### Upfront and Annual MIP Chart for Mortgages with Terms > 15 Years

<table>
<thead>
<tr>
<th>LTV</th>
<th>Purchase and Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 95%</td>
<td>100 BPS/90 BPS</td>
</tr>
<tr>
<td>≤95%</td>
<td>100 BPS/85 BPS</td>
</tr>
</tbody>
</table>

### Upfront and Annual MIP Chart for Mortgages with Terms ≤ 15 Years

<table>
<thead>
<tr>
<th>LTV</th>
<th>Purchase and Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 90%</td>
<td>100 BPS/ .25%</td>
</tr>
<tr>
<td>≤90%</td>
<td>100 BPS/ .0%</td>
</tr>
</tbody>
</table>

The following tables list the MIP amounts based on the term of the loan for case numbers assigned on or after April 5, 2010 until October 3, 2010.

### Upfront and Annual MIP Chart for Mortgages with Terms > 15 Years

<table>
<thead>
<tr>
<th>LTV</th>
<th>Purchase and Refinance</th>
<th>Streamline Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 95%</td>
<td>2.25% / .55%</td>
<td>2.25% / .55%</td>
</tr>
<tr>
<td>≤95%</td>
<td>2.25% / .50%</td>
<td>2.25% / .50%</td>
</tr>
</tbody>
</table>

### Upfront and Annual MIP Chart for Mortgages with Terms ≤ 15 Years

<table>
<thead>
<tr>
<th>LTV</th>
<th>Purchase and Refinance</th>
<th>Streamline Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 90%</td>
<td>2.25% / .25%</td>
<td>2.25% / .25%</td>
</tr>
<tr>
<td>≤90%</td>
<td>2.25% / .0%</td>
<td>2.25% / .0%</td>
</tr>
</tbody>
</table>

6.1-I2 Cancellation of MIP

The annual MIP may be canceled by HUD once the unpaid principal balance reaches 78% of the lower of the initial sales price or the appraised value on the initial amortization schedule. MIP cancellation of a Streamline Refinance without an appraisal is determined based on the “original appraised value” provided by HUD.

Regardless of the computed loan-to-value ratio, all but 15-year term mortgages will have annual premiums for the greater of five years or until the amortized loan-to-value reaches 78%.
6.1-J Subordinate Financing
Subordinate financing allowed according to FHA guidelines, see the [HUD Handbook 4155.1](https://portal.hud.gov/hudportal/HUD?src=/portal/sfh/hud_handbook/4155.1) and Credit Policy, Mortgage Eligibility section 3.2-D for more information.

6.1-J1 Government Agencies
Federal, state, and local government agencies may provide secondary financing for the borrower’s entire cash investment. The second lien itself must be made or held by the eligible governmental body. It is the underwriter’s responsibility to document the eligibility of the governmental body.

6.1-J2 Non-Profit Agencies
Non-profit agencies that are considered instrumentalities of government may provide secondary financing for the borrower’s entire cash investment. The appropriate HOC is responsible for approving the nonprofit agency, as well as determining if it can be considered an instrumentality of government. If the non-profit agency is not considered an instrumentality of government, the borrower must make their required cash investment from another acceptable source. It is the underwriter’s responsibility to document the approval of the non-profit agency as well as their status as an instrumentality of the government. Lists from the appropriate HOC website should be printed and included in the loan file to document both items. Additional information on FHA regulations for secondary financing can be found in [4155.1 Chapter 5, Section C](https://portal.hud.gov/hudportal/HUD?src=/portal/sfh/hud_handbook/4155.1).

6.1-J3 Maximum Combined Loan-to-Value

<table>
<thead>
<tr>
<th></th>
<th>Government Agency</th>
<th>Charitable Organization/Approved Non-Profit</th>
<th>Family Member</th>
<th>Other Organizations/Private Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum CLTV</td>
<td>100% ¹ of the acquisition costs ² (the cost to acquire may exceed the appraised value)</td>
<td>100% of the acquisition costs ²</td>
<td>100% of the lesser of the property value or sales price plus normal closing costs, prepaids, and discount points</td>
<td>The applicable loan-to-value for the geographic value</td>
</tr>
</tbody>
</table>

¹ The maximum CLTV for a mortgage originated with an approved Community Second or DPA program may be as high as 105%.

² Acquisition cost is defined as the sales price plus allowable borrower-paid closing costs, discount points, repair, and rehabilitation costs.

6.1-K Property

6.1-K1 Eligible Properties
- 1-4 Unit
- FHA Approved condominiums (low and high rise)
- Planned Unit Developments

6.1-K2 Ineligible Properties
- Condo hotels
- Commercial buildings
- Mobile/Manufactured housing
- Non-FHA approved condos
- Co-ops
- Log homes
- Leasehold Properties
6.1-K Property (cont’d)

6.1-K3 Properties Listed for Sale

Refinance on properties listed for sale are not permitted.

Rate/Term Refinance: The listing must be cancelled at least one day prior to the date the loan application is taken

Cash Out Refinance: Listing agreements on the subject property must be cancelled six months prior to the loan application date or the loan is subject to a maximum loan to value of 70%

In all cases, the listing agreements must be cancelled prior to the loan application. A copy of the cancelled/expired listing should be placed in the file and a search of the MLS should be completed to verify the property is not currently listed by a different agency.

6.1-L Appraisals

Effective for all case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed and under construction properties will be 120 days. The underwriter must assure that the FHA connection reflects the correct name of the appraiser.

6.1-L1 Adoption of the Appraisal Update and/or Completion Report

Effective for all case number assignments on or after 2/15/2010. FHA is adopting the dual purpose form, Appraisal Update and/or Completion Report (FNMA 1004D/FHLMC 442). Please see Mortgagee Letter 2009-51 and Mortgagee Letter 2010-13 for further clarification.

- Part A, summary Appraisal Update Report, provides for updates of existing appraisals when the appraiser concurs with the original appraisal report and updates the appraisal by incorporating the original appraisal report.
- Part B, Certification of Completion, provides for compliance repair and completion inspections for existing and new construction dwellings.

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

- The Update Report may not be used if the property value has declined; the appraiser must certify there has been no decline in value.
- The Appraisal Update Report may only be used one time to extend the validity period of the original appraisal report.
- The Appraisal Update Report must be ordered and performed prior to the expiration date of the original appraisal report.
- The FHA appraiser who performed the original appraisal must perform the appraisal update and the appraiser must be in good standing with FHA at the time the Appraisal Update is performed.
- The appraiser must use the Market Conditions Addendum, Fannie Mae 1004MC, to update their research and analysis of the current market data to validate the subject property has not declined in value.
- The appraiser must be able to observe from the street or a public way the subject property's improvements that contribute value to the property.
6.1-L Appraisals (cont’d)

6.1-L1 Adoption of the Appraisal Update and/or Completion Report (cont’d)

- An exterior inspection of the property must not indicate any significant changes or deficiencies that were not observed at the time of the original appraisal report’s effective date.
- If the original appraisal report was transferred to a new lender, the appraiser must attach the original appraisal report to the Appraisal Update Report instead of referencing the report. This is a USPAP requirement.
- The appraiser must provide a photo of the subject property from the street and photos from as many angles visible from a public way.

6.1-L2 Appraiser Independence

Effective for all case numbers assignments on or after 2/15/2010, FHA lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender’s staff who is compensated on a commission bases tied to the successful completion of a loan.

FHA also prohibits any member of the loan production staff or any person who is compensated on a commission basis to have substantive communications with an appraiser related to or having an impact on valuation. For more information, please see Mortgagee Letter 2009-28.

6.1-L3 Declining Market

If a property is located in a declining market the appraiser must

- Include at least two comparable sales that closed within 90 days. If the appraiser is unable to find comps that closed within 90 days, he/she is to provide a detailed explanation and include at least two sales that are as similar as possible that closed within 90 days to show market activity.
- Include a minimum of two active listings or pending sales on the appraisal grid along with the closed sales comps. The appraiser should adjust the active listings to reflect the list to sale price ratio for the market. Adjust pending sales to reflect the contract purchase price and the list to sale price ratio.
- The appraiser is to reconcile the adjusted values of active listing or pending sales with the adjusted values of the closed sales provided. If the adjusted values of the closed comps are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate.

6.1-L4 Market Conditions Addendum

The Market Conditions Addendum is required by FHA on all appraisals. For more information, please refer to Mortgagee Letter 2009-09.
6.1-L Appraisals (cont’d)

6.1-L5 Portability of Appraisals from One Lender to Another

Effective for all case number assignments on or after 1/1/2010, the following new guidelines apply when a borrower switches from one FHA approved lender (first lender) to another (second lender), and an appraisal was ordered and completed for the first lender. FHA recognizes that the second lender may need to order a new appraisal, but this is allowed only under limited circumstances.

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

For cases 1 and 2 above, the lender must retain both appraisals in the FHA case binder. For case 3 the first appraisal must be added to the case binder when it is received. In all cases, the lender must document why a second appraisal was ordered and retained in the case binder. Please see Mortgagee Letter 2009-29 for further clarification.

6.1-L6 Second Appraisal

A second appraisal will be required when:

- Resale of property greater than 90 days and up to 180 days if the resale price is greater than or equal to 100% over the property seller’s acquisition price.
- If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be predicated upon the lower of the two appraised values.

Guidelines for additional appraisal:

- Both appraisals need to be completed by FHA approved appraisers
- Only the first appraisal you order will have the FHA case number
- If the property is a one unit detached property the second appraisal may be an exterior-only using Form 2055

6.1-M Building on Own Land

The following information is for guidance on FHA Building on Your Own Land transactions. The Building on Own Land Calculation Worksheet is posted in Credit Policy Forms Section 12 to be used for calculations and included in the file on all transactions.

- LTV limits are applied to the lesser of:
  - The appraised value, or
  - The documented acquisition costs of the property, which includes:
    - The builder’s price, or the sum of all subcontractor’s bids, materials, etc.
    - Cost of land (if the land has been owned more than six months or received as an acceptable gift, the value of the land may be used instead of its costs.
    - Interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property
6.1-M Building on Own Land (cont’d)

Equity in the land (value or cost, as appropriate, minus the amount owed) may be used for the borrower’s entire cash investment. If the borrower receives more than $250.00 cash back at closing, the loan is limited to 85% of the sum of the appraised value and allowable closing costs. Replenishment of the borrower’s own cash expended during construction is not considered as “cash back” – provided the borrower can document with cancelled checks and paid receipts all out of pocket costs used for construction.

All case numbers will need to be ordered as purchase transactions. The HUD-1 statement will resemble a refinance transaction. The “Total Acquisition Cost” as listed on worksheet will be used as “contract sales price” for calculation purposes. The allowable closing costs paid by borrower are no longer allowed to be included in the “Total Acquisition Cost calculation”. Loan will need to be submitted as a purchase through the FHA scorecard to support borrower has made 3.5% minimum investment. All inspections and other new construction documents are required as per FHA guidelines.

See Chapter 2, Section B.5 of the HUD 4155 for additional information on Building on Your Own Land.

6.1-N Condominiums

Effective with Case numbers assigned on or after December 7, 2009 the entire project must be approved by HUD or a Direct Endorsement Lender. The two processes are referred to as HRAP (HUD Review and Approval Process) and DELRAP (Direct Endorsement Lender Review and Approval Process).

SNMC will not approve condos under the DELRAP process at this time. FHA approved condo projects can be searched at: https://entp.hud.gov/idapp/html/condlook.cfm. A printout from the web page showing evidence that the project is on the approved list should be included in the file.

For further clarification on FHA Condominiums, please see Mortgagee Letter 2009-46 A & Mortgagee Letter 2009-46 B.

6.1-N1 Eligible Property Types:
Condominium projects of 2 or more units and site (detached) condominiums

6.1-N2 Site Condominiums
Site condominiums are defined as a single-family totally detached dwellings (no shared garages or any other attached buildings) encumbered by a declaration of condominium covenants or condominium form of ownership. Site condominiums do not require project approval. The condo rider must be attached to the Mortgage/Deed of Trust and included in the FHA case binder.

- Although processed as Section 203(b) loans, the applicable ADP codes for Site Condominiums are 734 or 731 (Adjustable Rate Mortgages).
- The appraisal form 1004 is used for Site Condominiums
6.1-N Condominiums (cont’d)

6.1-N3 Documentation Required

SNMC requires a FHA Condo HOA Certification to be completed and included in the file. This form is located in Credit Policy Forms Section 12.2.

As stated in Mortgagee Letter 2009-46 A & B, the lender must verify the condominium project has been FHA approved via HRAP or DELRAP and must complete the “Attachment C”. This attachment must be included in the original file and certifies the project’s continued compliance with the initial approval requirements regarding the following:

- Investor ownership
- Percentage of owners in arrears for condominium association fees
- Pre-sale ratio
- Owner-occupancy rate
- FHA loan concentration rate

**Investor ownership:** No more than 10% of the units may be owned by one investor. This limitation also applies to developers/builders that subsequently rent vacant and unsold units. For condominium projects with ten or fewer units, no single entity may own more than one unit within the project; all units, common elements, and facilities within the project must be 100% complete.

**Percentage of owners in arrears for condominium association fees:** No more than 15% of the total units can be in arrears (more than 30 days past due) of their condominium association fee payments.

**Pre-sale ratio:** At least 50% of the total units must be sold prior to endorsement of a mortgage on any unit. Valid pre-sales include:

- Copies of sales agreements and evidence that a mortgagee is willing to make the loan
- Evidence that units have closed and are occupied; OR

Information from a developer-builder that lists all the units already sold, under contract, or closed. The temporary guideline (effective for all case numbers assigned through 6/30/2011) for new construction is reduced to 30% with the above documentation.

**Owner-occupancy rate:** At least 50% of the units in a project must be owner-occupied or sold to owners who intend to occupy the units.

**FHA loan concentration rate:** The maximum FHA concentration requirement is currently at 50%. FHA will display the concentration information for each approved condominium development on the approved condominium listing, which can be found in the FHA Connection. If the concentration amount is listed in the FHA connection at the time the case number is ordered, FHA will not issue new case numbers once the 50% temporary concentration has been met. If the concentration number is listed in the FHA connection and is over 50% and a FHA case number has been issued, then you may consider the file will be eligible for the exception as listed in the Mortgagee Letter:
6.1-N Condominiums (cont’d)

6.1-N3 Documentation Required (cont’d)

Exceptions to 50 percent Concentration Level: The FHA concentration may be increased up to 100 percent if the project meets all of the basic condominium standards plus the additional items stated below:

- The project is 100 percent complete and construction has been completed for at least one year, as evidenced by issuance of the final or temporary/conditional certificate of occupancy for last unit conveyed;
- 100 percent of the units have been sold and no entity owns more than 10 percent of the units in the project (for projects with fewer than 10 units, single entity may own no more than 1 unit);
- The project’s budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget;
- Control of the Homeowners Association has transferred to the owners; and
- The owner-occupancy ratio is at least 50 percent.

Note: New construction and conversions are not eligible for this exception.

If the FHA loan concentration rate is not displayed in the FHA connection, the concentration number will have to be either manually verified to be under the 50% by the underwriter or the FHA connection will have to be updated to show the concentration amount. This update may be accomplished by providing information regarding the project to HUD. Please contact Credit Policy and we will assist to expedite this process. If after verification, the concentration rate is above 50%, the underwriter will need to provide the documentation listed above in the loan file. The underwriter will then need to contact Credit Policy to verify with HUD the project is eligible for the 100% concentration exception.

In addition to the above items, SNMC is also certifying that “the Lender has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to: defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owner’s association; and disputes concerning unit owners; rights privileges, and obligations)”

Please reference Mortgagee Letter 2009-46A and Mortgagee Letter 2009-46B or contact Credit Policy for additional information/clarification on any of the above items.

- Underwriter must represent and warrant that the FHA approval conditions noted on FHA’s website including, but not limited to, presale and occupancy requirement, have been met prior to closing.
- FHA Certification attachment C must be signed by the underwriter and included in all files
- 50% owner-occupancy requirement-Occupancy is based on the total number of units in the project or (phase if applicable).
Section 6.1: FHA

6.1-N Condominiums (cont’d)

6.1-N4 General Information

- Project approval is not required for FHA to FHA non-credit qualifying streamline refinances without appraisal or FHA/HUD REO sales.
- Spot condo approval process is not eligible.
- HO-6 Coverage; in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a “walls-in” coverage policy (HO-6).
- Note: Impounds for HO-6 insurance are required.
- Condo conversions are eligible for FHA approval. One year waiting period for condo conversions has been eliminated. Conversions from non-residential use are treated as new construction. May not be a conversion of a hotel/motel. Rehabilitation must be 100% complete.
- The project must be covered by the required insurance and may not be comprised of manufactured home. Underwriter must represent and warrant that the FHA approval conditions noted on FHA’s web site including, but not limited to, presale and occupancy requirement, have been met prior to closing.

6.1-N5 Project Approval

The permanent guidelines became effective on 12/7/2009. The temporary guidelines have been extended through 6/30/2011.

Commercial Space: No more than 25% of a property’s total floor area may be commercial. The use must be homogenous with residential use.

Budget Review

- Sufficient funds to maintain amenities
- At least 10% of the budget for replacement reserves and capital expenditures
- Adequate funding for insurance
- In lieu of budget or reserve study, may use Fannie Mae form 1073a, Analysis of Annual Income
- Expenses executed by the owners association or management company

| Owner Occupancy       | Permanent Guidelines: At least 50% owner occupied  
                        | No more than 10% of the units may be owned by one investor/developer/builder (if less than 10 units, no more than one unit by an investor)  
                        | Temporary Guidelines: Vacant and tenant-occupied REO units are excluded from the 50% calculation  
|-----------------------|--------------------------------------------------------------------------------------------------|
| FHA Concentration     | Permanent Guidelines: 30%  
                        | If 3 or fewer units, no more than one unit with FHA insurance Concentration levels will be tracked on FHA Connection and [http://www.hud.gov/](http://www.hud.gov/), based on case numbers assigned for project  
                        | Temporary Guidelines: 50%--May be increased to 100% for well established projects  
| Pre-Sales Continued below | Permanent Guidelines: 50%  
                        | Legal phasing is recommended  
                        | Phasing guidelines for vertical buildings are provided  
                        | Temporary Guidelines: 30%  

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### 6.1-O HUD Owned Properties/Repair Escrows

HUD will allow repair escrows to be financed in the new FHA loan amount on some REO properties. The purchase contract from HUD will address on line 4 if repair escrows are allowed. These guidelines should be followed:

- Mortgage lenders request the HUD appraisal from the M&M contractor. Appraisal should address what repairs are required and the cost to complete.
- Obtain a copy of the fully executed purchase contract from the M&M contractor.
- Purchase contract will list on line 4 the amount of the repair escrow that can be included in the mortgage.
- The repair escrow listed on line 4 of the purchase contract is 110% of the estimated cost of repairs and must be used for the repairs specified in the property listing.
- The repair escrow can be added into the loan amount. Please refer to Mortgagee Letter 2000-27 for instructions.
- The maximum dollar amount to be eligible for FHA 203b financing is $5000.
- An escrow agreement for 110% of the cost of repairs must be signed by all parties.
- A completed form HUD-92300, Mortgage’s Assurance of Completion will be included in the case binder.
- A completed form HUD-92051, Compliance Inspection Report (final inspection) must be submitted after the completion of repairs. The repair inspection must be performed by a qualified individual (but does not necessarily require an FHA Fee Inspector). DE underwriter determines the level of qualification necessary for the inspection.
- The maximum escrow period is 60 days.
- The escrow amount must be approved by the underwriter.
- The Title Company will be instructed to hold the escrow monies until instructed by SNMC branch to disburse the funds according to our instructions.
- It is the branch’s responsibility to underwrite, close, track, and deliver all the follow up documentation.
- See Section 3.7-A12, Property Guidelines for additional information on Escrow Holdbacks.

### 6.1-O1 $100 DOWN HUD REPO PROGRAM

The FHA $100 down payment HUD Repo program is a purchase-money incentive offered in limited geographic areas to purchasers of a home owned by the Department of Housing and Urban Development. Buyers are only required to make a $100 down payment. The loans are underwritten as normal FHA 203(b) or 234(c) loans. This program is different from the Good Neighbor Next Door HUD program. These additional guidelines should be followed:

- The purchase contract must have a $100 down addendum signed and approved by HUD. Any additional guidelines listed in the purchase contract should be observed.
- Must use the appraiser from the M&M Contractor – cannot order a new one unless that one is over 6 months old.
- Case number should be ordered as an REO case.
- Spot condo approvals are not allowed. Condo should be FHA approved.
- Temporary buydowns are not allowed.
- All other HUD repo guidelines should be followed.
6.1-P New Construction Documentation

6.1-P1 Requirement for Proposed, Under Construction, and Existing < 1 Year:

Proposed and Master Appraisal Report (MAR) – approved prior to the beginning of construction by either a Conditional Commitment, Early Start Letter, or MAR form 91322 for High Ratio Loans.

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Final Inspection by FHA fee inspector (HUD 92051)
- Health Authority approval on Well and Septic if needed
- Flood insurance (elevation cert noted as SFHA)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Cert (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty and final inspection by fee inspector (92051) or
- 3 inspections by fee inspector (HUD 92051)** or
  Early Start letter and 3 inspections by fee inspector (92051) or
- Building permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)
- Health Authority approval if needed
- Flood insurance (elevation cert notes as SFHA)

** Only 2 inspections are required on a Modular home (like manufactured housing)

6.1-P2 Under Construction

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Final Inspection by fee inspector (HUD 92051)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)
6.1-P New Construction Documentation (cont’d)

6.1-P2 Under Construction (cont’d)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty and final inspection by fee inspector (92051)
  - or
  - Building permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominium and manufactured homes)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)

** If early start letter is in file – treat as proposed construction

6.1-P3 FHA Final Inspection

When a property is “Under Construction” more than 90% complete at the time of appraisal with only minor finish work remaining (generally buyer preference items), items the appraiser would have the expertise to sign off, the final inspection may be completed by the appraiser under the guidance of Mortgagee Letter 01-27; otherwise the final inspections by must be done by a FHA Fee Inspector.

6.1-P4 Existing (New) < 1 year old

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)
- High Ratio Loan: 90.01% and Higher
- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)

6.1-P4 Existing (New) < 1 year old (cont’d)

Builder Certification (HUD 92541) (not on condo)

- 1 year warranty (HUD 92544)
- 10 year warranty, or
  - Building Permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)
  - Health Authority approval if needed
  - Flood insurance (elevation cert noted as SFHA)

** If early start letter is in file – treat as proposed construction
6.1-P New Construction Documentation (cont’d)

6.1-P5 Requirements for new construction > 1 yr old not previously occupied
FHA will treat a new construction that is over 1 year old and not previously occupied as an existing home and will not require the normal new construction exhibits, provided that the underwriter documents that the home is over 1 year old by proving a Certificate of Occupancy. The date the home was cleared for occupancy will be the date to verify the home is over 1 year old.

6.1-P6 Requirements for Resale of an existing home < 1 year old
FHA will treat a resale of a second or subsequent purchaser of a new, less than one year old property that is 100% complete (including all on and offsite improvements) as an existing property and the new construction exhibits normally submitted will not be required, provided that:

- The re-sale is an arms-length transaction
- The lender clearly identifies the transaction as a resale to a second or subsequent purchaser in the case binder (to avoid an NOR being issued by the Homeownership Center for missing new construction exhibits)

With respect to property flipping rule, underwriters are reminded that while a builder selling a newly built home is not subject to the property flipping rule, a subsequent seller would be.

6.1-P7 Requirements for Refinance of a Conventional to FHA – Property < 1 year old
For a refinance of a conventional loan to and FHA loan on a property that is existing, less than one year old:

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)
6.1-P New Construction Documentation (cont’d)

6.1-P7 Requirements for Refinance of a Conventional to FHA – Property < 1 year old (cont’d)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builder Certification (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty, or
  - Building Permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)
  - Health Authority approval if needed
  - Flood insurance (elevation cert noted as SFHA)

*** When a bank forecloses on a builder and is then listed as the "owner of record," the new construction is treated as existing. A final building permit and certificate of occupancy (or equivalent) should be obtained, but no "new construction documents" are required. Home must be complete. If the borrower must finish construction of the home then new construction docs would be required in most cases.

6.1-Q Property Flipping

To address the issue of property flipping, FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property. Property eligibility is dependent upon the time that has elapsed between the date the seller acquired the property (based on the settlement date) and the date the buyer signed the sales contract or purchase offer (the resale date). With certain exceptions, FHA has prohibited insuring a mortgage on a home owned by the seller for less than 90 days. This restriction was imposed in 2003 to prevent property flipping. On January 15, 2010, HUD announced a temporary (1 year) waiver of the prohibition with strict conditions to insure against predatory practices.

Security National Mortgage will allow the current HUD Waiver of Requirements of 24 CFR 203.37 a(b)(2) as per HUD guidelines. The Waiver of Requirements of 24 CFR 203.37 a(b)(2) takes effect with all properties with purchase contracts signed by the seller and buyer on or after February 1, 2010 and is limited to those sales meeting the following conditions:

- All transactions must be arms-length, with no identity of interest between buyer and seller or other parties participating in the sales transactions. Some ways that the lender can ensure that there is no inappropriate collusion or agreements between parties is to assess and determine the following:
  - The seller holds title to the property;
  - LLCs, corporations, or trusts that are serving as sellers were established and are operated in accordance with applicable state and Federal law.
  - No pattern of previous flipping activity exists for the subject property, as evidenced by multiple title transfers within a 12-month period time frame (chain of title information for the subject property can be found on the appraisal report)
  - The property was marketed openly and fairly, via MLS, auction, For Sale by Owner offering, or developer marketing (any sales contracts that refer to an “assignment of contract of sale”, which represents a special arrangement between seller and buyer may be a red flag).
6.1-Q Property Flipping (cont’d)

- Transactions are not allowed where the sales price is greater than or equal to a 20% increase over seller’s acquisition cost.¹

¹The property seller’s acquisition cost is defined as what the seller paid to acquire the subject property. It does not include the cost of any repairs or improvements made to the property after purchase.

Any loan that does not meet the above conditions will be subject the 90 day flipping rule as per the original FHA guidelines.

As per SNMC current policy on all loans, any increase in value from the original purchase price of the transaction within a 12 month period will need to be justified by the underwriter. Any loans in which you have questions or concerns should be reviewed with either Credit Committee or your Regional Operations Manager.

This temporary waiver will expire on 12/31/2011.

HUD has since confirmed that the list of regulatory exemptions is still applicable, therefore exempt sales do not have limitations or documentation requirements based on the sales price increase over seller’s acquisition cost. The following exemptions are not restricted to the less than 20% increase in value:

- FHA REO properties sold by FHA.
- Resales of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- Property inherited by the seller. The seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The seller must still be the owner of record but the 90 day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sale by other U.S. Government Agencies of single family properties pursuant to programs operated by these agencies.
- Sale of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
- Sale of properties by state and federally charted financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). (Note: Mortgage Insurance (MI) companies are not considered a state or federally charted financial institution and are not qualified as a government sponsored enterprise.)
- Sale of properties by local and state government agencies
- Sale of properties within Presidentially-Declared Disaster Areas (upon FHA’s announcement of eligibility in a mortgagee letter specific to said disaster).
6.1-Q Property Flipping (cont’d)
Resale greater than 90 days: Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation. If the home is selling between 91-180 days and the sales price exceeds the previous sales price by 100% or more, FHA will require a 2nd appraisal. For additional information, please see 4155.2 Chapter 4.7.