



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
SINGLE FAMILY HOUSING



Welcome to...
Underwriting FAQs
Income, Assets, Credit and Liabilities

Today's webinar begins
at 1:00 PM (Eastern)

We will be underway shortly

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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SINGLE FAMILY HOUSING



Santa Ana Homeownership Center
Single Family Housing Policy Handbook
FHA Underwriting FAQs-Income, Assets, Credit and Liabilities

April 27, 2023

Presented by:
Patricia Aguilar, Housing Program Officer

Last Update: January 18, 2023



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Welcome and Housekeeping



Welcome and Housekeeping

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Agenda

Welcome and Housekeeping

TOTAL vs. Manual

Refinance Transactions

Final Underwriting Decision

Refinance Transactions

Final Underwriting Decision



Disclaimer

The purpose of this presentation is to provide an overview and summation of recent changes to the Federal Housing Administration's (FHA) policy. It introduces and explains official policy issued in Department of Housing and Urban Development (HUD) Handbooks and Mortgagee Letters. If you find a discrepancy between the presentation and Handbooks, Mortgagee Letters, etc., the official policies prevail. Please note the information provided in this training is subject to change.

The information in this document is current as of the January 18, 2023 publication of Handbook 4000.1, FHA Single Family Housing Policy Handbook.

Please consult *FHA Single Family Housing Policy Handbook 4000.1* and Mortgagee Letters through HUDClips for the most recent updates and current policy.



TOTAL vs. Manual



When to Downgrade



When to Downgrade

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);

When to Downgrade (cont.)

- 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 the 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.



Mortgage Payment Downgrade

Obligations/Mortgage Payment History-Purchase and No Cash-Out Refinance Transactions

Purchase and No Cash-Out Refinance Transactions

Downgraded to a **REFER** if any mortgage trade line reflects:

Most recent 12 months

≥ 3 x 30 days –

Three or more late payments of greater than 30 days

≥ 1 x 60 + > 1 x 30

One or more late payments of 60 Days plus one or more 30-day late payments.

≥ 1 x 90

One payment greater than 90 Days late.

Less than 3 consecutive payment since completion of a mortgage forbearance plan.

Note: A Mortgage Payment is considered delinquent if not paid within the month due. **Modified Mortgages must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. The Borrower must have made at least six payments under the Modification Agreement to be eligible for a no-cash out refinance.



Mortgage Payment Downgrade (cont.)

Obligations/Mortgage Payment History Cash-Out Refinance Transactions

Cash-Out Refinance Transactions

Downgraded to a **REFER** if any mortgage trade line reflects:

- Any Delinquency within 12 months of the case assignments date; or
- A current delinquency; or
- The borrower has made less than 12 consecutive monthly payments since completion of a Mortgage Forbearance Plan.

Note:

- A Mortgage Payment is considered delinquent if not paid within the month due.
- Modified Mortgages utilize the payment history in accordance with the Modification Agreement for the time period of modification in determining late housing payments.



Modification or Forbearance Documentation Requirements

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.

Applicability of Automated Underwriting System Rules

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.



Disputed Derogatory Credit Accounts (TOTAL)

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.



Credit



Judgments

TOTAL and Manual

- **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.
- 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.

Judgments: Exception Policy Clarification

TOTAL and Manual:

A Judgment is considered resolved if the Borrower has:

- Entered into a valid agreement with the creditor to make regular payments on the debt;
- 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.



Judgments: Additional Requirement

Manual

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.

Credit Counseling/Payment Plan

TOTAL

- No explanation or other documentation is needed.

Manual

- The Mortgagee must document:
 - One year of the pay-out period has elapsed under the plan;
 - Payment performance has been satisfactory, and all required payments have been made on time; **and**
 - Written permission from the counseling agency to enter into the mortgage transaction.

Evaluating Liabilities and Debts



Debts with less than 10 payments

General Liabilities and Debts (TOTAL) and General Liabilities and Debts (Manual)

- 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 payment of all such debts are less than or equal to 5 percent (5%) of the Borrower's gross monthly income*. The Borrower may not pay down the balance in order to meet the 10 month requirements.

Undisclosed Mortgage Debt (TOTAL)

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.

Undisclosed Debt *Other* Than a Mortgage

TOTAL and Manual

- When a debt or obligation (other than a mortgage) is not listed on the application and/or credit report, the Mortgagee must:
 - Verify the actual monthly payment amount; **and**
 - Determine that any funds borrowed were not/will not be used for the Borrower's MRI (Minimum Required Investment).

TOTAL

- If the debt was not considered by the AUS, the Mortgagee must:
 - Re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the Borrower's liabilities increases by more than \$100 per month. Enter the debt into TOTAL.

Borrower's Total Mortgage Payment

TOTAL and Manual

- 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:
 - The Mortgagee can document the abated amount with the taxing authority; **and**
 - The abatement will remain in place for at least the first three years of the Mortgage.

Authorized User Accounts

TOTAL and Manual

Accounts for which the Borrower is an authorized user **must be included in a Borrower's Debt-to-Income (DTI) ratio** unless the Mortgagee can obtain documentation to evidence:

- The primary account holder has made all the 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.



Alimony, Child Support, or Other Maintenance

- 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.
- 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, or other maintenance.

Deferred Obligations: Clarification (Excluding Student Loans)

TOTAL and Manual

- Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.
- The Mortgagee **must** verify and **include deferred obligations** in the calculation of the Borrower's debt.
- Mortgagee **must** use the actual monthly payment to be paid on a deferred liability whenever available.
- If the actual monthly payment is not available:
 - **Installment Debt (not including student loans)**, the Mortgagee **must** utilize five percent (5%) of the outstanding balance to establish the monthly payment.

Student Loans (TOTAL and Manual)

TOTAL and Manual

- 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.



Student Loans (TOTAL and Manual) (cont.)

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
- One half percent (0.5%) 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.

Contingent Liabilities: Divorce

The Mortgagee **must** obtain a copy of the divorce decree ordering the spouse to make payments.



Business Debt in Borrower's Name

TOTAL and Manual

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Mortgagee **must** obtain documentation to evidence the following:

- The company has been making regular on-time payments during the previous **12 months without delinquency**;
- The debt is paid out of company funds; **and**
- The debt was considered in the **cash-flow analysis** of the Borrower's business.

Business Debt Considered in Cash Flow Analysis

When the Borrower's personal debt being paid by the Borrower's business is considered in the cash flow analysis, then the Borrower's business tax returns must reflect:

- A business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds and may be added back to the net income; **and/or**
- An interest expense related to the obligation;
 - **Only** the interest portion of the debt may be considered in the cash flow analysis and added back to the net income.

Income Requirements



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General Income Requirements

- Effective Income refers to income that may be used to qualify a Borrower for a mortgage.
- Effective Income must:
 - Be likely to continue through at least the first three years of the mortgage;
 - Be documentable;
 - Be legally derived;
 - Be reported to the IRS when required; and
 - Subtract negative income from the Borrower's gross monthly income.
- If FHA requires tax returns for any type of Effective Income, the Mortgagee must also analyze the tax returns in accordance with Appendix 2.0-Analyzing IRS Forms.

Employment Related Income

TOTAL and Manual

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.



Traditional Current Employment Documentation

TOTAL and Manual

- 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.

Alternative Current Employment Documentation

TOTAL and Manual

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.



Past Employment Documentation

TOTAL and Manual

- 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.
- Evidence supporting enrollment in school or the military during the most recent two full years.

Re-verification of Employment

TOTAL and Manual

- Re-verification of employment **must** be completed within 10 Days prior to the date of the Note.
- Verbal re-verification of employment is acceptable.
- Electronic Re-verification of employment data must be current within 30 days of the date of the verification.



Calculation of Effective Income: Hourly

TOTAL and Manual

- Hourly Wages which:
 - **Do not vary:** the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.
 - **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.

Overtime, Bonus or Tip Income

TOTAL and Manual

- 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 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**.

Overtime, Bonus or Tip Income: Calculation

TOTAL and Manual

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.

Commission Income

TOTAL and Manual

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.

Commission Income: Effective Income

The Mortgagee must calculate Effective Income for commission by using the lesser of:

- Either, (i) the average Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than two years; or
- The average Commission Income earned over the previous year.

Self-Employment Income

TOTAL and Manual

- Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.
- The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed **for at least two years**.

Self-Employment Income: Stability

TOTAL and Manual

- 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.
- Income obtained from businesses with **annual earnings that are stable or increasing is acceptable.**

Self-Employment Income: Stability (cont.)

TOTAL

If the income from businesses show a **decline** in Effective Income of **20 percent or more** over the analysis period, the Mortgagee **must downgrade** the transaction to a Refer and manually underwrite the transaction.



Self-Employment Income: Stability (cont.)

Manual

- 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.

Self-Employment Income: Documentation

TOTAL

- The Mortgagee **must** obtain completed individual tax returns for the most recent two years, including all schedules.
- The Mortgagee **must** obtain the Borrower's business federal tax returns, including all schedules, 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 account; **and**
 - The mortgage to be insured is **not a cash-out refinance**.



Self-Employment Income: Documentation (cont.)

Manual

- The Mortgagee must obtain signed, completed individual and business federal tax returns for the most recent two years, including all schedules.
- The Mortgagee must obtain a business credit report for all corporations and 'S' corporations.

Self-Employment Income: Documentation (cont.)

TOTAL and Manual

- 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.



Self-Employment Income: Calculation

TOTAL and Manual

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 the previous two years; **or**
- The average gross Self-Employment Income earned over the previous one year.

Frequent Changes in Employment

TOTAL and Manual

- If the Borrower has changed jobs 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.
- 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.

Gaps in Employment

TOTAL and Manual

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.

Gaps in Employment (cont.)

Addressing Gaps in Employment or Reduction of Income Due to COVID-19 Related Economic Event

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.

Gaps in Employment (cont.)

Required Documentation

The Lender must provide the following documentation for Borrower to verify:

- Written Verification(s) of Employment (VOE) identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours.

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.



Alimony, Child Support, or Maintenance Income

TOTAL and Manual

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.



Alimony, Child Support or Maintenance Income: Legal Record – Documentation (cont.)

TOTAL and Manual

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.

Non-Taxable Income (Grossing Up)

TOTAL and Manual

- Non-Taxable Income refers to types of income not subject to federal taxes.
- The Mortgagee must document and support:
 - The amount of income to be Grossed Up for any non-taxable income source; and
 - The current tax rate applicable to the Borrower's income that is being Grossed Up.



Rental Income



Limited/No History of Rental Income Received: Subject Property (TOTAL and Manual)

Borrower Does Not Have a History of Rental Income from the Subject :	One Unit	Two-to-Four Units
	<p>Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i>, Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i>, and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i>, showing fair market rent.</p>	<p>Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Max Form 72, <i>Small Residential Income Property Appraisal Report</i>)</p>
	<p>The prospective executed lease, if available</p>	<p>The prospective executed leases, if available</p>

Limited/No History of Rental Income Received Subject Property: Calculation

TOTAL and Manual

- The Mortgagee must add the net subject property Rental Income to the Borrower's gross income.
- 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.
- No income from commercial space may be included in Rental Income calculations.



History of Rental Income Received Subject Property (TOTAL and Manual)

The Borrower has a history or Rental Income from the subject since the previous tax filing:

One Unit

Borrower's most recent 2 years Tax Returns including Schedule E

Properties with less than 2 years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or other legal document.

Two-to-Four Units

Borrowers most recent 2 years Tax Returns including Schedule E

Note: For manual only, the existing leases are required and if rental history over the previous 24 months reflects a gap greater than 3 months, an explanation is required.



History of Rental Income Received Subject Property: Calculation

TOTAL and Manual

- The Mortgagee must:
 - Calculate the Rental Income by averaging the amount shown on the Schedule E.
- The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.
- 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.



History of Rental Income Received Subject Property: Calculation (cont.)

TOTAL and Manual

- The following items shown on the Schedule E may be added back to the income or loss:
 - Depreciation;
 - Mortgage interest;
 - Taxes;
 - Insurance; and
 - Any HOA Dues.

- No income from commercial space may be included in Rental Income calculations.

Rental Income: Property Being Vacated by the Borrower (TOTAL and Manual)

Rental Income from the Property being Vacated by the Borrower:	One Unit	Two – Four Units
	Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i> , Fannie Mae Form 1007/Freddie Mac Form 1000 <i>Single Family Comparable Rent Schedule</i> , and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i> , showing fair market rent.	Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>)
	Appraisal evidencing a minimum 25 percent equity in the vacated property	Appraisal evidencing a minimum 25 percent equity in the vacated property
	Executed 1-year lease agreement, commencing after the closing	Executed 1-year lease agreement, commencing after the closing
	Evidence of payment of the security deposit or first month's rent or lease agreement	Evidence of payment of the security deposit or first month's rent or lease agreement
	Evidence that the Borrower is relocating to an area more than 100 miles from the Borrower's current Principal Residence.	

Rental Income: Limited or No History-Other Real Estate (TOTAL and Manual)

Rental Income Limited or No History by the Borrower:	One Unit	Two-to-Four Units
	<p>Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i>, Fannie Mae Form 1007/Freddie Mac Form 1000 <i>Single Family Comparable Rent Schedule</i>, and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i>, showing fair market rent.</p>	<p>Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>)</p>
	<p>Appraisal evidencing a minimum 25 percent equity in the property</p>	<p>Appraisal evidencing a minimum 25 percent equity in the property</p>
<p>Properties with less than 2 years of Rental Income history, the date of acquisition must be document by providing the deed, Settlement Statement or other legal document.</p>		



Limited/No History of Rental Income Received: Calculation

TOTAL and Manual

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.



Rental Income: History Other Real Estate (TOTAL and Manual)

The Borrower has a History of Rental Income Since the Previous Tax Filing:

One Unit

Borrower's most recent 2 years executed Tax Returns including Schedule E

Two-to-Four Units

Borrower's most recent 2 years executed Tax Returns including Schedule E

Properties with less than 2 years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or other legal document.



History of Rental Income Received: Calculation

TOTAL and Manual

- The Mortgagee must:
 - Calculate the Rental Income by averaging the amount shown on the Schedule E, provided the Borrower continues to own all properties included on the Schedule E;
 - Annualize the Rental Income for properties owned less than two years,
 - Add positive Rental Income to the Borrower's Effective income, and
 - Include negative net Rental Income as a reoccurring debt/liability.
- Depreciation shown on Schedule E may be added back to the net income or loss.

Self-Sufficiency Rental Income Eligibility (Three-to-Four Unit Properties) TOTAL and MANUAL

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).

Standard

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

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.

Assets



General Asset Requirements

TOTAL and Manual

- The Mortgagee may only consider assets derived from acceptable sources in accordance with FHA Single Family Housing Policy.
- Closing costs, prepaid items, and other fees may not be applied towards the Borrower's minimum required investment (MRI).



Earnest Money Deposit

TOTAL and Manual

The Mortgagee must verify and document the deposit amount and source of funds, if the amount of the earnest money deposit exceeds one 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 cancelled check; or
- Certification from the deposit-holder acknowledging receipt of funds; or
- A Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.
- 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.

Reserves

TOTAL and 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.

The Mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three-to-four unit Properties.



Reserves (cont.)

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.

Manual

- The Mortgagee must verify and document Reserves after closing equivalent to:
 - One month's PITI for one –to two-unit properties.
 - Gift funds cannot be used for reserves.

Source Requirements for the Borrower's Minimum Required Investment

TOTAL and Manual

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.

Required Documentation

- When 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.

Source Requirements for the Borrower's Minimum Required Investment (cont.)

TOTAL and Manual

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:

- The seller of the property; or
- Any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- Anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

Real Estate Tax Credit (TOTAL and Manual)

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.



Checking and Savings Accounts

TOTAL and Manual

For recently opened accounts and recent individual deposits of more than one percent of the Adjusted Value, the Mortgagee must:

- Obtain documentation of the deposits; and
- Verify that no debts were incurred to obtain part, or all, of the MRI.



Standards for Gifts

TOTAL and Manual

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; and
 - First-time homebuyers.



Family Member

TOTAL and Manual

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.
 - Parent or grandparent includes a step-parent/grandparent or foster parent/grandparent.
- Spouse or domestic partner; and
- Legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption.

Family Member (cont.)

TOTAL and Manual

- Foster child;
- Brother, stepbrother;
- Sister, stepsister;
- Uncle;
- Aunt; or
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law of the Borrower.

NOTE: Only Family Members may provide equity credit as a gift on property being sold to other Family Members.



Documenting the Transfer of Gifts

TOTAL and Manual

- The Mortgagee must verify and document the transfer of gift funds from the donor to the Borrower.
- 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 and were the donor's own funds.

NOTE: Cash on Hand is **NOT** an acceptable source of donor gift funds.



Documenting the Transfer of Gifts (cont.)

TOTAL and Manual

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.

If the gift funds are not verified in the Borrower's account:

- Obtain the certified check, money order, cashier's check, 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.

For Gifts of land, obtain proof of ownership by the donor and evidence of the transfer of title to the Borrower.



Interested Party Contributions (TOTAL and Manual)

- Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, TPOs, 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 paid outside closing (POC), prepaid items and Discount Points.
- Interested Party Contributions may not be used for the Borrower's MRI.

Interested Party Contributions (TOTAL and Manual) (cont.)

- Interested Parties may contribute up to six percent of the sales price toward the Borrower's origination fees, other closing costs including any items POC, prepaid items and Discount Points. The six 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 Upfront Mortgage Insurance Premiums (UFMIP).
- Interested Party Contributions that exceed actual costs/fees are considered an inducement to purchase. Interested Party Contributions exceeding six percent are considered an inducement to purchase.

Interested Party Contributions (TOTAL and Manual) (cont.)

Exception

- Premium Pricing credits from the Mortgagee or TPO are excluded from the six percent limit provided the Mortgagee or TPO is not the seller, real estate agent, builder or developer.

Required Documentation

- The Mortgagee must document the total contribution on the sales contract, HUD 92900-LT and Closing Disclosure. When a legally binding document other than the sales contract is used, the Mortgagee must provide a copy of the document to the assigned Appraiser.



Inducement to Purchase

Rent Below Fair Market

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 prorated 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.

Secondary Financing

TOTAL and 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.

Secondary Financing-Quick Reference

	Governmental Entities and HOPE Grantees	HUD-Approved Non Profits	Family Members	Private Individuals and Other Organizations
Nationwide Mortgage Limits	The insured 1 st mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The insured 1 st mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The insured 1 st mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The Base Loan and secondary financing amounts must no exceed the Nationwide Mortgage Limits for the are in which the property is located.
Secondary Financing for Borrower's MRI	Any secondary financing of the Borrower's MRI must fully comply with the additional requirements in Source Requirements for the Borrower's MRI.	The secondary financing may not be used to meet the Borrower's MRI.	The secondary financing may be used to meet the Borrower's MRI.	The secondary financing may not be used to meet the Borrower's MRI.
CLTV Limitations	No maximum Combined Loan-to-Value (CLTV)	No maximum Combined Loan-to-Value (CLTV)	CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed 100 percent of the Adjusted Value.	The CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed the applicable FHA LTV limit.



Manual Underwriting of the Borrower



Introduction

The Mortgagee must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

FHA's general credit policy requires Mortgagees to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.



Non-Traditional and Insufficient Credit

For Borrowers without a credit score, the Mortgagee must either obtain a:

- Non-Traditional Mortgage Credit Report (NTMCR); or
- Independently develop the Borrower's credit history.
 - Non-traditional and alternative credit may not be used to off-set or overcome derogatory credit.

Independent Verification of Non-Traditional Credit Providers

- Mortgagees may independently verify the Borrower's non-traditional credit providers.
- The Mortgagee **must** verify through public records:
 - The existence of each credit provider;
 - A published address or telephone number for the credit provider; **and**
 - Obtain the most recent 12 months cancelled checks or equivalent proof of payment.

Non-Tradition Mortgage Credit Report

The Non-Tradition Mortgage Credit Report (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).

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** or more from the list below:

- Rental housing payments;
- Telephone service (cellphone is acceptable); and
- Utilities (not included in rent)
 - Gas;
 - Electric;
 - Water;
 - Television service; or
 - Internet.

Sufficiency of Credit References (cont.)

Two credit references can be used from list provided below:

- Insurance premiums not payroll deducted;
- Payment to child-care providers (business);
- School tuition;
- Retail store credit cards;
- Rent-to-own;
- Patient obligation for medical bills;
- Savings history for 12 months evidence by regular deposits not payroll deducted resulting in an increased balance to the account that were made at least quarterly without insufficient funds (NSF) reflecting for checking;
- Automobile lease; or
- Personal loan from an individual with repayment terms in writing and payments made supported by cancelled checks.

Sufficiency of Credit References: Authorized User Accounts

The Mortgagee may use Borrower Authorized User Accounts as a credit reference. The Mortgagee must obtain documentation to evidence that the Borrower:

- Has been making regular on-time payments during the previous 12 months;
- Does not have a history of delinquent payments on the loan; **and**
- The debt payment is be included in a Borrower's DTI ratio.



Satisfactory Credit

The underwriter may consider a Borrower to have an acceptable payment history:

	0-12 months	12-24 months
Housing and Installment	0x30 days or more	2x30 days; 0x60 days or more
Revolving	2x60 days; 0x90 days	-

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.

Payment History on Housing Obligation

- The Mortgagee must determine the Borrower's Housing payment history through:
 - The credit report;
 - Verification of rent received directly from the landlord;*
 - Verification of Mortgage or;**
 - A review of canceled checks – most recent 12 months.
- Borrower's living rent-free must be verified by the property owner that the borrower is living rent-free and for how long.
- Modified mortgages must utilize the payment history in accordance with the modification agreement for the time period of modification.

* For landlords with no Identity of Interest with the Borrower

** Received directly from the servicer



Approvable Ratio Requirements

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 following slide

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.



Approvable Ratio Requirements (cont.)

Lowest MDCS	Max Qualifying Ratio %	Acceptable Compensating Factors
500-579 or No Credit Score	31/43*	Not applicable. Borrowers with MDCS 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	34/47	ONE of the following: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Verified and documented cash Reserves; • Minimal increase in housing payment; • Significant additional income not reflected in Effective Income; and/or • Residual income.



Disputed Derogatory Credit Accounts

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.

Chapter 13 Bankruptcy: Pay-out Period

A Chapter 13 Bankruptcy does not disqualify a Borrower from obtaining a FHA-insured mortgage if, at the time of case number assignment, at least 12 months of the pay-out period under the Bankruptcy has elapsed.

The Mortgagee must determine that during this time:

- The Borrower's payment performance has been satisfactory; all required payments have been made on time; **and**
- The Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

Refinance Transactions



Adjusted Value

- For properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:
 - The Borrower's purchase price, plus any documented improvements made after the purchase;
or
 - The Property Value.
- For properties acquired by the Borrower within 12 months of application by inheritance or through a gift from a family member may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.

Payment History Requirements

Mortgages not in the Name of the Borrower

If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

Payment History Requirements (cont.)

- 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.

Maximum Loan-to-Value Ratio Rate and Term Refinance

Maximum LTV	Maximum CLTV	Principal/Secondary Residence	Occupancy since Acquisition	Occupancy @ Case Number Assignment
97.75%	97.75%	Principal	Owned for minimum 12 months	Acquired within 12 months
85%	97.75%	Principal	Owned for less or more than 12 months	Occupies as Principal Residence fewer than 12 months or if owned less than 12 months, has not occupied the property for that entire period of ownership
85%	97.75%	Secondary*		

*For all HUD-approved Secondary Residences



Maximum Loan-to-Value Ratio Simple Refinance

Maximum LTV	Maximum CLTV	Principal/Secondary Residence
97.75%	97.75%	Principal Residence
97.75%	97.75%	Principal Residence
85%	85%	Required for all HUD-approved Secondary Residences



Documenting Occupancy

Required Documentation

The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment.



Streamline Refinances-Payment History Requirements

(i) Standard-Non-Credit Qualifying

A Borrower who was granted mortgage payment forbearance on the subject Property is eligible for a non credit-qualifying Streamline Refinance and considered to have acceptable Mortgage Payment history provided that, at the time of case number assignment, the Borrower has:

- Completed the Forbearance Plan on the subject Property; and
- made at least three consecutive monthly Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

(i) Standard-Credit Qualifying

A Borrower who is still in mortgage payment forbearance at the time of case number assignment, or has made less than three consecutive monthly Mortgage Payments within the month due since completing the Forbearance Plan, is eligible for a credit qualifying Streamline Refinance provided the Borrower:

- Made all Mortgage Payments within the month due for the six months prior to forbearance; and
- Had no more than one 30-Day late payment for the previous six months.



Net Tangible Benefit: Streamline Refinance

Standard for Refinances with a Term Reduction

The Mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart that follows for all Streamline Refinance transaction with a reduction in term.

Additionally, the combined principal, interest, and MIP payment of the new Mortgage must not exceed the combined principal, interest, and MIP payment of the refinance Mortgage by more than \$50.



Net Tangible Benefit: Streamline Refinance

From	To Fixed Rate	To One-Year ARM	To Hybrid ARM
	New Combined Rate	New Combined Rate	New Combined Rate
Fixed Rate	At least 0.5 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate	At least 2 percentage points below the prior Combined Rate
Any ARM With Less than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate	At least 1 percentage point below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate	At least 1 percentage point below the prior Combined Rate

If the mortgage term is reduced, the new interest rate does not exceed the current interest rate and the payment does not increase by more than \$50. This alone meets the test.



Net Tangible Benefit: Streamline Refinance

Standard for Refinances with a Term Reduction

From	To Fixed Rate New Combined Rate	To One-Year ARM New Combined Rate	To Hybrid ARM New Combined Rate
Fixed Rate	Below the Prior Combined Rate	N/A	N/A
Any ARM with Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	N/A	N/A
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	N/A	N/A



Mortgage Seasoning Requirements

On the date of the FHA case number assignment:

- The Borrower must have made at least six payments on the FHA-insured Mortgage that is being refinanced (where the FHA-insured Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement);
- At least six full months must have passed since the first payment due date of the Mortgage that is being refinanced;
- At least 210 Days must have passed from the Closing Date of the Mortgage that is being refinanced; and
- If the Borrower assumed the Mortgage that is being refinanced, they must have made six payments since the time of assumption.



Maximum Mortgage Calculation for Streamline Refinances

Standard: For owner-occupied Principal Residences and HUD-approved Secondary Residences, the maximum Base Loan Amount for Streamline Refinances is:

- The lesser of:
 - The outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus:
 - Interest due on the existing Mortgage;
 - Late Charges;
 - Escrow shortages; and
 - MIP due on existing Mortgage; or
 - The original principal balance of the existing Mortgage (including financed UFMIP).
- Less any refund of UFMIP.

Streamline Refinance-Cash to Close

Funds to Close

If the funds to close exceed the total Mortgage Payment of the new Mortgage, the Mortgagee must verify the full amount of the Borrower's funds to close in accordance with Sources of Funds.



Cash Out: Qualifying

Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance.



Cash Out: Occupancy Requirements

- Cash-out refinance transactions are only permitted on owner-occupied Principal Residences.
- The property securing the cash-out refinance must have been owned and occupied by at least one Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.
- The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject property as their Principal Residence for the 12 months prior to case number assignment.

Cash Out: Occupancy Requirements Exception

Inheritance: A Borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject property as an Investment Property at any point since inheritance of the property:

If the Borrower rents the property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the property as a Principal Residence for at least 12 months.



Cash Out: Payment History

The Mortgagee must document that the Borrower:

- Has made all payments for all their mortgages within the month due for the previous 12 months or since the Borrower obtained the mortgages, whichever is less.
- The payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage Disbursement.
- Properties with mortgages must have a minimum of six months of Mortgage Payments.
- Properties owned free and clear may be refinanced as cash-out transactions.



Rate and Term: Payment History Requirements (Manual Underwrite)

- Standard-A Borrower who was granted mortgage payment forbearance must have:
 - Completed the Forbearance Plan on the subject Property; and
 - Made at least three consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.
- 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 dates 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.



Final Underwriting Decision



Final Underwriting Decision (TOTAL)

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.

The Mortgagee must score the Mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessments nor will information be carried from TOTAL to FHAC for endorsement processing without an FHA case number

Final Underwriting Decision (Manual)

The Direct Endorsement (DE) underwriter is **ultimately responsible for making an underwriting decision** on behalf of their DE Mortgagee in compliance with HUD requirements.

Duty of Care/Due Diligence

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.



Helpful Links

Click **Chat** icon or **Landing Page** – select links to bookmark:

- FHA Lenders page:
https://www.hud.gov/program_offices/housing/sfh/lender
- FHA FAQ page:
<https://www.hud.gov/FHAFAQ>
- Single Family Housing Archived Webinars (On Demand) page:
https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars



Helpful Links

- SF Handbook Information:
https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1
- Upcoming Single Family Housing Events and Training :
https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars
- Subscribe to FHA INFO: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



FHA Resource Center

Option	Point of Contact	Hours Available	Comments
1 FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2 Email	answers@hud.gov	24/7/365	
3 Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



Q&A



Thank you for joining us today.

