Refinances for Borrowers in Negative Equity Positions

- ML 2010-23

- Effective for loans with case number assignments on or after September 7, 2010, and have closed on or before December 31, 2012.

Eligibility

- The homeowner(s) must be in a negative equity position.
- The homeowner(s) must be current on the existing mortgage to be refinanced.
- The homeowner(s) must occupy the subject property (1-4 Units) as their primary residence.
- The homeowner(s) must qualify for the new loan under standard FHA underwriting requirements with "FICO" credit scores equal or greater to 500.

Eligibility
(continued)

- Existing loan to be refinanced must not be an FHA insured loan.
- The existing first lien holder must write off at least 10% of the unpaid principal balance.
- LTV of the refinanced FHA insured 1st mortgage cannot exceed 97.75%.
- Non-extinguished existing subordinate mortgages must be re-subordinated and the new loan may not have a CLTV greater than 115%.

Eligibility
(continued)

- No premium pricing permitted to pay off existing debt.
- FHA approved mortgagees are not permitted to make mortgage payments on behalf of the borrowers or otherwise bring the existing loan current to make it eligible for FHA insurance, with the exception of acceptable permanent loan modification.

Eligibility
(Continued)

- Total Scorecard “Refer “requires manual underwrite.

- Maximum DTI for manually underwritten loans is limited to 31%/50%.

Underwriting Requirements

- Loans must be run through Total scorecard to obtain a risk classification.
- If Total renders an “accept/approve” result, the lender’s underwriter does not need to personally review the borrower’s credit history and capacity to repay.
- Lenders are responsible for the data that is input in TOTAL.
- DE Underwriter must review the appraisal.

Underwriting Requirements (continued)

- Lenders must still comply with outstanding rate and term refinance eligibility requirements.
- Major derogatory credit requires sufficient written explanation from the borrower.

Calculating Mortgage

- The refinanced FHA-insured mortgage must have a loan-to-value ratio of no more than 97.75 percent and all non-extinguished existing subordinate mortgages must be re-subordinated and may not result in a combined loan-to-value ratio greater than 115%.

Secondary Financing

- The terms of the subordinate lien(s) must not provide for a balloon payment before ten years, unless the property is sold or refinanced.
- The terms must permit prepayment by the borrower, without penalty, after giving 30 days advance notice.
- Periodic payments, if any, shall be collected monthly.
- If payments on subordinate financing are required, they must be included in the qualifying ratios unless payments have been deferred for no less than 36 months.

Borrower Certification

- Required for all Negative Equity Refinance loan applications on or after September 19, 2010.
- Refer to the Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1481(d).

ADP Codes in FHA Connection

	Fixed	ARM
203(b)	821	822
Condo	831	832

Future Changes to CLTV Requirements for Refinance Transactions

Future changes to CLTV Requirements for Refinance Transactions

- ML 2010-24 for case number assignment on or after 09/07/2010

- Effective per ML, the combined amount of the FHA-insured first mortgage and any subordinate lien not to exceed applicable LTV and geographical maximum mortgage amount

Maximum CLTV for Refinance Transactions

Rate and Term (or No Cash Out) Refinance s	97.75%
Refinances for Borrowers in Negative Equity Positions	115%
FHA-to-FHA Streamline Refinances With or Without Appraisals	125%
Cash-out Refinances	85%

Questions

Transactions Affecting the Maximum Loan to Value

Maximum Mortgage Amounts

- Maximum mortgage is lesser of:
  - Statutory loan limit for the area
  - Applicable LTV limit
- Minimum cash investment of 3.5% of sales price
- Seller Contributions
- Inducement to purchase
- Additions to the mortgage amount

Transactions Affecting Mortgage Calculations

- Identity of Interest Transactions
- Non-Occupying Borrowers
- Three- and Four-Unit Properties
- Land Contracts
- Proposed, Under Construction and Existing Less than a Year Properties

Identity of Interest

An identity of interest transaction is defined as a purchase transaction between a buyer and seller with a family or business type relationship.

Identity of Interest

There are several exceptions that may be granted to allow maximum financing for identity of interest transactions:

- Family Member Purchase: Involves transactions between family members defined as grandparent, parent, child, grandchild and/or spouse when family member is selling their primary residence. May also include properties being sold by an estate of the family member that can be documented as the primary residence of the deceased party within a reasonable amount of time.

Identity of Interest

Other exceptions for maximum financing include:

- Builder's Employee purchase
- Tenant Purchase: Occurs when buyer is leasing from family or business relation and has occupied property for a minimum of 6 months
- Corporate Transfer

Non-Occupying Borrowers

A non-occupying borrower is when there are 2 or more borrowers on the FHA loan, but one or more will not occupy the property as their principal residence

Two - Four Unit Properties

Two-four unit properties that have a non-occupant co-borrower are limited to 75% LTV

Land Contracts

The borrower will use the loan to complete payment on a land contract, contact for deed, or other similar type financing arrangement in which the borrower does not have title to the property

What do you think?

Jamie Smith is buying a primary residence from her ex-husband, Tom. This is the home that they both lived in while they were married, however, Jamie was never on title or the mortgage. This is not a community property state. Is the borrower limited to 85% LTV?

Jason Blue has applied for FHA-insured financing purchasing the home he has currently been renting for the last 4 months. Are they limited to 85%?

Abby Clark is trying to obtain an FHA-insured loan with maximum financing. She has only been working for a month, and doesn't have a history of 2 years of previous work experience or college. She wants her boyfriends mother to be a non-occupant co-borrower on the loan. Can she obtain maximum financing?

Mr. Sunny is buying a four unit property, and needs a non-occupying co-borrower to qualify. Can he receive maximum financing?

Mr. and Mrs. Purple are wanting to pay off a land contract with permanent FHA insured financing. They went into contract 10 months prior. What is their max LTV?

Questions

New Construction

Documentation Requirements

- Proposed construction
- Under construction
- Existing (new) less than 1 year
- Condominiums
- Manufactured housing
- Retro-fit

Documentation Requirements

Certificate of Occupancy Equivalent Requirements

- Inspection card reflecting all inspections
- Certification from DE Underwriter certifying that inspection card is equivalent to a C.O. and that the city/county or local jurisdiction does not issue a certificate of occupancy
- DE Underwriter must properly complete 92900A, page 3
- A building permit is also required

Proposed Construction

It is considered a proposed property when the foundation has not being poured, i.e. the beginning of construction has not started

Under Construction

Under construction is considered if the property is not 100% complete

Existing Less Than One Year

Existing less than one year is considered when the property is 100% complete, but less than a year old

New Construction

Situations where maximum financing on new construction loans may be effected:

- If the lender cannot obtain a 10 year warranty and final inspection by fee inspector, or building permit and certificate of occupancy the maximum LTV is 90%

Build-on-Own-Land

FHA insured financing available on build-on-own-land transactions, either:

- New construction “existing” less than 1 year
- Proposed “construction to permanent ” financing

Build-on-Own-Land

Use the Build-on-Own-Land formula incorporated in Mortgagee Letter 2009-16 for determining the base loan amount

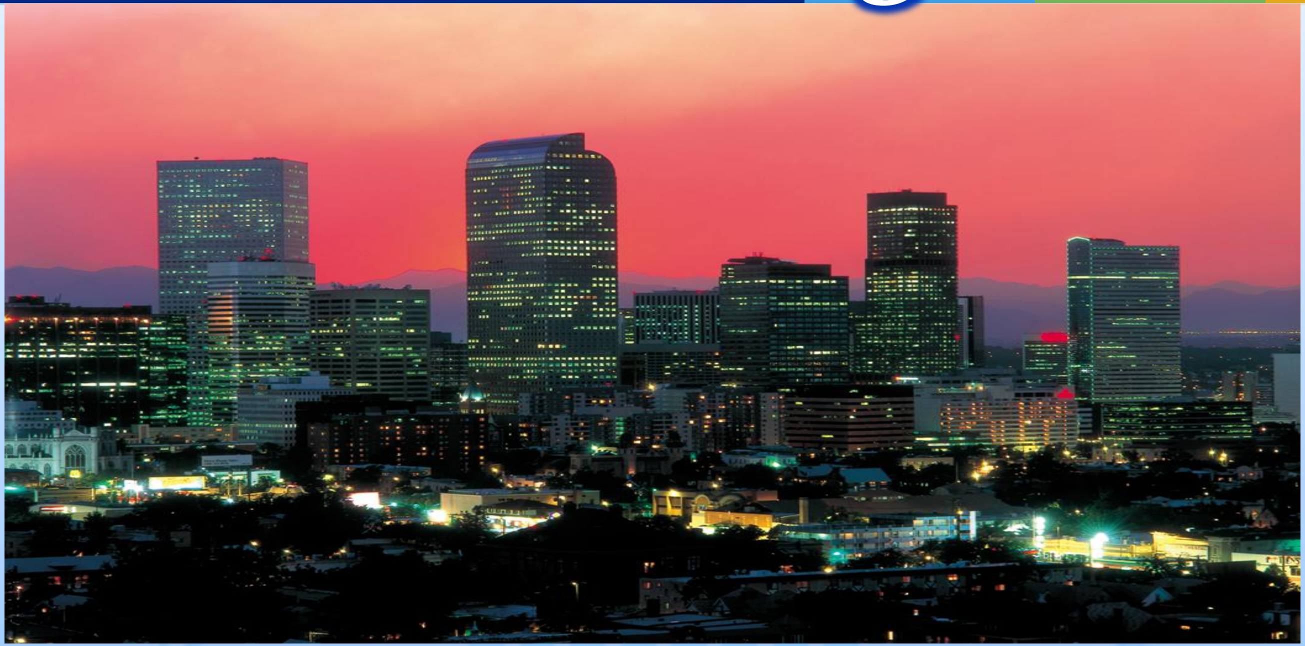
- "Stick Built " or "Manufactured Home"
- Regular New Construction Documents required
- In most cases the HUD-1 will resemble a "refinance"

Calculations

Land value, acquiring separately at closing	$20,000
Cost of construction	$176,000
Closing costs + Discounts + Pre-paids	$3,000
Construction interest	$4,000
Appraised value	$250,000

Questions

Welcome to FHA Training



We will begin at 1 pm

Please be Considerate of others, turn off your cell phones and pagers

Ask the Audience

What are the rules for occupancy?

Occupancy

- When may a borrower be considered an owner occupant , obtain owner occupied FHA insured financing and not occupy subject property?
- May a non occupying co-borrower on a daughters FHA insured loan purchase or refinance a primary home with FHA insured financing?

Occupancy

- May a parent selling home to a child also co-borrow with the child on the FHA insured loan?

- What does FHA consider reasonable commuting distance?

Occupancy

Borrowers currently own a home with FHA insured financing and intend to purchase a new primary home with FHA insured financing. Borrowers will retain their current home. Lender has determined the borrowers meet the exception for 2 FHA insured financed homes due to increase in family size as the borrowers state they need a larger home and yard due to a new family dog.

WHAT DO YOU THINK?

Income Scenarios

Seasonal Employees

- What does FHA require as documentation for a seasonal employee?
- Are we able to use the borrower's unemployment when averaging the two year income?
- Must the borrower be back to work at time of closing?

Income

Community property state: Non-purchasing spouse shows a loss on Schedule C. The lender did not count the loss as a reduction to income nor as a debt.

What would you do?

Income

- Un-reimbursed employee business expenses from schedule 2106 are required to be deducted from borrowers income.
- If borrower is receiving an automobile allowance, the difference between the automobile allowance and the 2106 expense may be added to income if positive OR must be treated as liability if negative.
- In addition, the borrowers auto loan payment must be counted as a debt and may not be offset by the automobile allowance.

Rental Income

Borrower is vacating his current home to purchase a new home within the same commuting distance to his employment. Borrower will retain and lease out current home and requests that the rental income be considered in qualification. Lender has provided borrowers HUD I to evidence original purchase price of vacating home to be $130,000. The existing loan on vacating property is $103,000.

Does rental income meet FHA guidelines?

Credit and Liability Scenarios

Liabilities

Do you have to count the borrower's American Express card in ratios if a borrower states his/her Schedule C business pays it? What if it is a Corporation, S-Corporation, or Partnership?

Traditional Credit

- True or False: All loans must receive approve/eligible AUS findings in order to be eligible for FHA Insurance.

- True or False: Loan is eligible for FHA insurance when the occupant borrower has acceptable credit and FICO score, but has no employment, income or assets. Non occupying co-borrower has sufficient income and assets and the loan receives an AUS Approve/Eligible.

Traditional Credit

- AUS Approve/Eligible. Ex-spouse has been awarded the marital home and mortgage debt. Copy of divorce decree has been provided evidencing such. Prior mortgage shows 2x30 days late in most recent 12 mos.

  May the lender omit prior mortgage debt?

- True or False: Borrower with a property mortgage included and discharged through a bankruptcy is eligible for FHA-insured financing two years after the bankruptcy.

Traditional Credit

In order to omit contingent liability, the person making the payments must be co-obligated on the debt:

Which is correct?

- Mother making borrower's automobile loan payment, is a co-borrower on the debt and has provided 12-months cancelled checks evidencing mother has made this payment.
- Father making borrower's student loan payment, is not a co-borrower on the loan but has 12-months cancelled checks

Non-Traditional Credit

- For a borrower with non traditional credit (a borrower who has no credit or fico score), what type of credit references will FHA accept as non-traditional credit? How many sources are required?

- Do occupying borrowers using non-traditional credit have to meet 31%/43% DTI Ratios and 2 months cash reserves? Can they have a non occupant co-borrower?

Non-purchasing Spouse

True or False:

All non purchasing spouse judgments and federal delinquent debt must be paid in full prior to closing

FHA TOTAL Scorecard

Ms. Florida was late on her mortgage 1x30 in the last 12 months, and 1x60 in the last 18 months. Will the lender need to manually downgrade her file if she received an Approve/Eligible?

Manual Downgrades

When a lender is not able to document the case file per the AUS/FHA TOTAL Scorecard Findings, does the loan have to be downgraded to refer and manually underwritten?

Assets

Gift Funds

- Can you pay down revolving debt qualify?
- Can a father selling his investment property to his son give a gift of equity to his son?

Miscellaneous

Citizenship and Immigration

What are the requirements for a non-permanent resident alien?

A permanent resident alien?

Eligibility

- If contractor working for the military is overseas but has a family member that will reside in the property, is he/she eligible to purchase with FHA-insured financing?

- What about a borrower who works out of the country for the majority of a calendar year, but the non-purchasing spouse would live in the property. Is this eligible?

Subsequent Purchase

- Builder defaults on a property less than 1 year old and bank forecloses
- Bank sells property to the borrower who in turn applies for FHA-insured loan
- New construction documents are not required for a subsequent purchase
- Lender must provide evidence property is complete via appraisal, certificate of occupancy or compliance inspection
- HUD-92051 provided by a fee inspector

Home Inspections

If the borrower has a home inspection performed, that inspection may also indentify a need for repairs which were not identified on the appraisal. In such cases, it is important that the Underwriter address such issues and determine that property still meets FHA minimum property requirements

Appraisal

Inspection

Social Security Validation

- Changes to FHA connection October 2007
- Name must be entered as reflected on social security card
- If failing validation, lender must provide an acceptable 3rd party verification with a service provider with direct access to the social security administration

Case Numbers

- A lender can hold a case number from transfer to another lender, if the borrower has not paid for the current appraisal? True or False
- My loan closed using FHA Insured financing, but the loan was not insured. Can I re-use the case number on my new refinance?
- A case number can be cancelled if the previous lender is refusing to transfer the case number? True or False

Case Warnings

What do the following case warnings mean?

- Mortgage credit reject
- Mortgage credit sanction/CAIVRS
- Multiple loans
- Free form comments exist

Insurance Application

- I have a final AUS approved recommendation, but when we've tried to insure the loan, it gives me an error "case warning total case rescored as refer, manual underwriting required".

  What does this mean?

- I am getting an error on the maximum mortgage for a streamline refinance with an appraisal. It is calculating the mortgage amount on the unpaid principal balance plus closing costs. Where do I enter the interest and prepaid expenses?

Insurance Application

- I have an error that I owe more on the UFMIP than what was submitted. What do I need to do?
- The loan amount was miscalculated and is over insured. How can I correct it?
- I have an error that the UFMIP was remitted prior to the loan closing. Why is this an error?

Property Repairs

Repairs and improvements, as required by the appraiser as essential for property eligibility, and to be paid by borrower, may be added to the sales price before calculating the mortgage amount for all FHA transactions.

Property Repairs

The amount that may be added to the sales price before calculating the maximum mortgage amount is the LESSER of:

- The amount the value of the property exceeds the sales price OR
- The Appraiser's estimate of repairs and improvements OR
- The amount of the Contractor's bid

Contact Information

1-800-Call FHA

(1-800-225-5342)

or

Info@fhaoutreach.com

include the state and case number

Thank you

Please fill out your evaluation forms

Disclosure

- The purpose of this presentation is an overview of the subject matter with summation and explanation of recent changes in FHA policy. It introduces and explains, rather than supplants, official policy issued in 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.

- Please consult HUD online Handbooks at http://www.fhaoutreach.gov/FHAHandbook/prod/contents.asp?address=4155-1 and Mortgagee Letters through http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm for the most recent updates and current policy.