

EMAIL: FY 2010-06

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Topic: Ownership of More than One Home Encumbered with a Mortgage

From: Office of Loan Guarantee, Section 184 Program

Ownership of Homes Secured with a FHA Mortgage

The guidance below applies solely to a principal residence being vacated in favor of another principal residence. This guidance is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040). This guidance should be included with your 184 Processing Manual, Chapter 5.

If the 184 applicant owns another home (verified on the URLA and/or credit report) the lender must verify if the property is financed with an FHA loan. If the mortgage is an FHA loan, then approval of the 184 loan is based on one of the following exceptions:

Relocations: The applicant is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.

Increase in Family Size **and** Sufficient Equity in Vacated Property: The applicant has had an increase in family size that requires additional bedrooms and has a loan-to-value ratio of 75 percent or less, as determined by either a current (no more than six months old) FHA residential appraisal completed by a certified appraiser or by comparing the unpaid principal balance to the original sales price of the property.

NOTE: If one of the two exceptions above is not met, the applicant cannot proceed with the 184 application.

Income and Credit Qualify. If the applicant meets one of the two exceptions above, the:

1. Applicant must income and credit qualify based on **both full** PITIs. HUD 184 will not include the rental income in the borrower's debt to income ratio.
2. Applicant must have an executed lease with a one year term.

Ownership of Home Secured with Other Financing.

If the borrower owns another home that is secured with financing such as a conventional loan, and they are vacating this property to purchase a home secured with a 184 Loan, the following must be met:

1. Applicant must income and credit-qualify based on **both full PITIs**. HUD 184 will not include the rental income in the borrower's debt to income ratio.
2. Applicant must have an executed lease with a one year term.