Welcome to
2022 Single Family Housing Lender Training
Credit Underwriting: Session I

Today’s webinar begins
at 1:30 PM (Eastern)

We will be underway shortly

Please test your speakers and choose Audio source (computer/smartphone or telephone) by selecting desired option in Audio Settings – see left side of toolbar at bottom of screen.
Technical Support

• Recommend Chrome browser.
• Technical issues? Review Technology FAQs by clicking Chat icon at bottom of screen or Landing Page.
• Need additional tech support? Click Contact Tech Support icon on Chat link or Landing Page.
Questions and Answers

• The presentation team will answer questions submitted in advance.
• Not all submitted questions will be answered today due to time limitations.
Contact FHA Resource Center

- Online at: www.hud.gov/answers
- Via email at: answers@hud.gov
- Via phone at: 1-800-Call-FHA (1-800-225-5342)

Persons with hearing or speech impairments call Federal Relay Service at 1-800-877-8339.
Documents/Materials & Training Evaluation

• Documents/Materials:
  – Click Chat icon or Landing Page – select Webinar Documents/Materials link for copy of presentation.

• Training Evaluation:
  – Click on Chat icon or Landing Page – select Survey link.
Helpful Links

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

- FHA Lenders page:  
  [https://www.hud.gov/program_offices/housing/sfh/lender](https://www.hud.gov/program_offices/housing/sfh/lender)

- FHA FAQ page:
  [https://www.hud.gov/FHAFQAQ](https://www.hud.gov/FHAFQAQ)

- Single Family Housing Archived Webinars (On Demand) page:
  [https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars](https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars)
Santa Ana Homeownership Center and Denver Homeownership Center

2022 Single Family Housing Lender Training
Credit Underwriting: Session I

June 8, 2022

Presented by:

Santa Ana Homeownership Center Processing and Underwriting Division
Hien Le, Senior Underwriter

Denver Homeownership Center Processing and Underwriting Division
Connie Schoenwald, Senior Underwriter

Last Updated: April 28, 2022
• The structure follows the logical process flow for stakeholders.

• The five major sections are:
  I. Doing Business with FHA
  II. Origination through Post-Closing/Endorsement
  III. Servicing and Loss Mitigation
  IV. Claims and Disposition
  V. Quality Control, Oversight, and Compliance
(b) Information Obtained via Internet

The Mortgagee must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including Uniform Resource Locator (URL) address, as well as the date and time the page is password protected to verify the website exists and print out evidence documenting the Mortgagee’s visit to the URL and website.

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

The purpose of this presentation is an overview of the subject matter with summation and explanation of recent changes in Federal Housing Administration (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 (MLs), etc., the official policies prevail. Please note the information provided in this training is subject to change.

Please consult HUD Handbooks and Mortgagee Letters through HUD Client Information Policy System (HUDCLIPS) for the most recent updates and current policy.

The information in this document is current as of the November 9, 2021, publication of Handbook 4000.1, *FHA Single Family Housing Policy Handbook*. 
Agenda

Part 1: General Requirements
Part 2: Borrower Eligibility
Part 3: Credit Requirements
Part 4: Income Requirements
General Requirements
The Mortgagee must:

1. Use the most recent version of all required forms to conduct FHA Single Family loan originations.

2. Obtain a complete Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application (URLA) from the Borrower.

3. Provide all federal and state disclosures to the Borrower in order to begin the origination process.
Contents of the Application Package

All information and documentation that is required in the Single Family Handbook, and any incidental information or documentation related to those requirements, that is relevant to the Mortgagee’s approval decision must be maintained in the Mortgage file.
Maximum Age of Documents

Documents used in origination and underwriting a Mortgage may not be more than **120 days old at the Disbursement Date**.

**What is Day One?**
For purposes of counting Days for periods provided in this Single Family Handbook, Day One is the Day after the effective or issue date of the document, whichever is later.
Initial Appraisal Validity:

- The initial appraisal is valid for 120 days on all Mortgages— including new construction—from the effective date of the appraisal.

- This date is defined by the appraiser on the appraisal report.
The 120-day Validity period of an appraisal may be extended for 30 days at the option of the Mortgagee if:

- The Mortgagee Loan Approval or HUD-issued Firm Commitment is issued prior to the expiration of the original appraisal, or
- The Borrower signed a valid sales contract prior to the expiration date of the appraisal.
Appraisal Update

- An appraisal update must be performed before the initial appraisal has expired.

- An appraisal cannot be updated if an appraisal extension has been issued.

- The valid period for an updated appraisal is 240 days after the Effective Date of the initial appraisal report.
Appraisal Integrity and Third Party Communication

Just a reminder:

The Appraiser report must list FHA as an Intended User of the Appraisal.

Mortgagees may not discuss the contents of the appraisal with anyone other than the Borrower.
Handling of Documents

Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested Party, including the Borrower.

The exceptions are the Mortgagees and Third-Party Originators (TPOs).
Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through, the equipment of unknown parties or Interested Parties.

The exceptions are the Mortgagees and Third-Party Originators (TPOs).

The Mortgagee and TPO are permitted to handle documents relating to the employment, income, assets or credit of the Borrowers.
The Mortgagees must authenticate all documents received electronically by:

- Examining the source identifiers; or

- Contacting the source of the document by telephone to verify the document’s validity.
The Mortgagee must obtain the Borrower’s initial completed signed and dated Uniform Residential Loan Application ((URLA) (Fannie Mae Form 1003/Freddie Mac Form 65)) and Page 2 of form HUD-92900-A before underwriting the Mortgage application.
The Mortgagee must have a licensed party identified on the URLA and is held accountable for the Mortgage loan origination. This includes Borrower self-completed Mortgage applications.
Mortgage Loan Application: Non-Borrowing Spouse

Non-Borrowing Spouse Community Property State:

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

Obtain a non-borrowing spouse’s consent and authorization to verify specific information required to process the Mortgage application, including the consent to verify their social security number (SSN) with the Social Security Administration (SSA).
Mortgage Loan Application: Nicknames

Nicknames

Mortgage loan applications must be executed in the legal names of all parties, including the Borrower(s) and Loan Originator.

*Exception*: Government Entities and FHA-approved nonprofit corporations that provide assistance to low- and moderate-income families.
Government-Issued Photo Identification:

- The Mortgagee must include a statement that they have verified the Borrower’s identity using a valid government-issued photo identification prior to endorsement of the Mortgage, or

- The Mortgagee may choose to include a copy of such photo identification in the case binder.
FHA Mortgage loan applications do not become an FHA application of record until an FHA Case Number is assigned.

REMINDER
The FHA Case Number is assigned to the property, not to the Borrower.
Automatically cancelled case numbers will only be reinstated if the Mortgage closed prior to the cancellation of the case number.

**Examples of Acceptable Documentation**

- Closing Disclosure
- Similar legal documentation
# Transferring Case Numbers and Appraisals

<table>
<thead>
<tr>
<th>Case Numbers</th>
<th>Existing Appraisals</th>
<th>Existing Appraisals New-Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>The original Mortgagee must assign the case number to the new Mortgagee immediately upon the Borrower’s request.</td>
<td>The Mortgagee, at the Borrower’s request, <strong>must transfer</strong> the appraisal to the second Mortgagee <strong>within 5 business days</strong>.</td>
<td>Enter the new Borrower’s information in FHA Connection (FHAC) and collect the <strong>appraisal fee</strong> from the new Borrower and refund the fee to the original Borrower.</td>
</tr>
<tr>
<td></td>
<td>A fee <strong>may</strong> be negotiated between the original Mortgagee and the new Mortgagee.</td>
<td></td>
</tr>
</tbody>
</table>

A fee may be negotiated between the original Mortgagee and the new Mortgagee.
Borrower Eligibility
Borrower Eligibility

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section of the Handbook 4000.1.

1. Origination/Processing
   a. Application and Disclosures
   b. General Mortgage Insurance Eligibility
      ii. Borrower Eligibility
A party who has a financial interest in the Mortgage transaction, such as the seller, builder, or real estate agent, **may not be a Co-Borrower or a Co-Signer.**
Family Member

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

• Child, parent, or grandparent;
• Spouse or domestic partner;
• Legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
• Foster child;
• Brother, stepbrother;
• Sister, stepsister;
• Uncle;
• Aunt, and
• Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.
Valid Social Security Number

The Mortgagee must document and validate for each Borrower a valid Social Security Number.

**EXCEPTION**

State and local governmental agencies, Instrumentalities of Government, and HUD-approved Nonprofit organizations are not required to provide a Social Security Number (SSN).
Borrower Age Requirements

The Borrower must be old enough to enter into a Mortgage note that can be legally enforced in the state, or other jurisdiction, where the property is located.
Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower’s credit report when all reported scores are the same.

<table>
<thead>
<tr>
<th>Three scores</th>
<th>Two scores</th>
<th>One score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where <strong>three</strong> differing scores are reported, the middle score is the MDCS.</td>
<td>Where <strong>two</strong> differing scores are reported, the MDCS is the lowest score.</td>
<td>Where only <strong>one</strong> score is reported, that score is the MDCS.</td>
</tr>
</tbody>
</table>

Example:
- Three scores:
  - 680
  - 635
  - 590
- Two scores:
  - 635
  - 590
- One score:
  - 680
## Multiple Borrowers MDCS

**Which MDCS do you select with multiple Borrowers?**

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Example 2</th>
<th>One score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple Borrowers. Select lowest MDCS for all Borrowers.</td>
<td>Multiple Borrowers; one does not have credit score. Select lowest MDCS.</td>
<td>Multiple Borrowers; none have MDCS. Review non-traditional or insufficient credit guidelines.</td>
</tr>
</tbody>
</table>

**Example: 1**  
Borrower 1: MDCS 700  
Borrower 2: MDCS 752  
Borrower 3: MDCS 703  
Select MDCS = 700

**Example: 2**  
Borrower 1: MDCS 700  
Borrower 2: MDCS 752  
Borrower 3: None  
Select MDCS = 700

**Example: 3**  
Borrower 1: None  
Borrower 2: None  
Borrower 3: None  
Review other options.
Eligibility Requirement MDCS

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

In community property states, the Borrower’s spouse is not required to be a Co-Borrower or Co-Signer.

<table>
<thead>
<tr>
<th>Co-Borrower</th>
<th>Co-Signer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liable for the debt</td>
<td>Liable for the debt</td>
</tr>
<tr>
<td>Obligated on the Note or credit instrument</td>
<td>Obligated on the Note or credit instrument</td>
</tr>
<tr>
<td>Must have an ownership interest in the property</td>
<td>Does not have an ownership interest in the property</td>
</tr>
<tr>
<td>Executes the security instruments</td>
<td>Does not execute the security instruments</td>
</tr>
</tbody>
</table>
Non-Occupying Co-Borrowers or Co-Signers must either be:

• United States (U.S.) citizens;
  OR

• Have a Principal Residence in the U.S.
Military Personnel Eligibility

Military Personnel on **Active Duty** are eligible for maximum financing if:

- A Family Member occupies the property as their Principal Residence;
  OR

- The Borrower intends to occupy the property upon discharge.
Citizenship, Immigration, and U.S. Residency Status

• U.S. citizenship is not required.

• The Mortgagee must determine the residency status of the Borrower based on information provided on the Mortgage application and other applicable documentation.

A Social Security card is never sufficient to prove immigration or work status.
A Borrower with lawful permanent resident status may be eligible for FHA financing if the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

Required Documentation:

- Must include evidence of the permanent residency,

- Indicate that the Borrower is a lawful permanent resident on the URLA.
A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing, provided:

- The property will be the Borrower’s Principal Residence
- The Borrower has a valid SSN, except for those employed by the world bank, a foreign embassy, or equivalent employer identified by HUD
- The Borrower is eligible to work in the U.S.
- The Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens
Non-Permanent Resident: Employment Authorization Document (EAD)

• If the Employment Authorization Document (USCIS Form I-766) or evidence of H-1B status will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted.

• If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the employer or the USCIS.
• A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS must provide documentation:
  – Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee or asylum status, or
  – USCIS Form I-797 *Notice of Action*, indicating approval of a USCIS Form I-589 *Application for Asylum or Withholding of Removal*, substantiating the refugee or asylee status.
Non-U.S. Citizens without Lawful Residency

Non-U.S. Citizens
Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Mortgages.
Mortgagees are required to determine whether Borrowers have delinquent federal non-tax debt.

Mortgagees may obtain information on delinquent federal debts from public records, credit reports, or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).
Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt: CAIVRS

• If the debt was identified through CAIVRS, the Mortgagee must contact the creditor agency.

• If the creditor agency confirms that the debt is valid and in delinquent status, then the Borrower is ineligible for an FHA-insured Mortgage until the Borrower resolves the debt with the creditor agency.

IMPORTANT
The Mortgagee may not deny a Mortgage solely on the basis of CAIVRS information that has not been verified by the Mortgagee.
In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.
The Mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt.

For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.
If a Borrower is currently delinquent on an FHA-insured Mortgage, they are ineligible for a new FHA-insured Mortgage unless the delinquency is resolved.
Borrowers with unresolved delinquent Federal Tax Debt are ineligible for FHA-insured financing.
Tax liens may remain unpaid if:

• The Borrower has entered into a valid payment agreement with the federal agency owed to make regular payments on the debt; and

• The Borrower has made timely payments for at least three months of scheduled payments.
Delinquent Federal Non-Tax and Tax Debt

Federal Non-Tax Debt

CAIVRS (or other means)

Debt Collection Improvement Act

Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

Clear CAIVRS Report

Federal Tax Debt

- Does not report on CAIVRS
- Delinquency must be resolved (paid/satisfied or payment arrangement)
Valid First Liens

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

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement.

The Mortgagee must document that the Borrower has made timely payments for at least three months of scheduled payments.

The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
Eligibility Criteria for Nonprofit Organizations

HUD-approved Nonprofit Organizations:

- Must be listed on the HUD Nonprofit Agency Roster
- May only obtain FHA-insured fixed rate Mortgages
- Are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence
- Are not eligible for cash-out refinance
State and Local governmental agencies and Instrumentalities of Government may obtain FHA-insured financing, provided:

<table>
<thead>
<tr>
<th></th>
<th>Eligibility Criteria for State and Local Governmental Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The agency has the legal authority to become the Borrower</td>
</tr>
<tr>
<td>2</td>
<td>The particular state or local government is not in bankruptcy</td>
</tr>
<tr>
<td>3</td>
<td>There is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government</td>
</tr>
</tbody>
</table>
The Mortgagee may originate a Mortgage for a living trust for a property held by the living trust, provided:

• The beneficiary of the living trust is a Co-signer

• The beneficiary will occupy the property as their Principal Residence

• The trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property
The name of the living trust must appear on the security instrument, such as the Mortgage, deed of trust, or security deed.

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

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

A Mortgage is not eligible for FHA insurance if anyone participating in the Mortgage transaction is listed on HUD’s Limited Denial of Participation (LDP) list or in the System for Award Management (SAM) as being excluded from participation in HUD transactions.

This may include, but is not limited to:

- Borrower;
- Seller; (except when selling the Principal Residence)
- Listing and selling real estate agent;
- Loan originator;
- Loan processor;
- Underwriter;
- Appraiser, and
- 203(k) Consultant, and
- Closing Agent and Title Company.
The Mortgagee must check the “Yes” box on form HUD-92900-LT if the Borrower appears on either the LDP or SAM list.
In general, the credit report must:

- Be in an easy-to-read and understandable format
- Not require code translations
- Not contain whiteouts, erasures, or alterations
- Include the Mortgagee’s, Borrower’s, and consumer-reporting agency information as prescribed in the Handbook 4000.1
- List all inquiries made within the last 90 Days
- Include all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA) for the last seven years
- Contain a Credit Report Number (CRN) shown on the Automated Underwriting System (AUS) (feedback certificate).
An Non-Traditional Mortgage Credit Report (NTMCR) is designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report and used either as:

A substitute for a TRMCR or an RMCR;

or

A supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.
Non-Traditional Credit Providers: Verifications

- Verify
  - Existence of Credit Provider
  - Credit provider’s published address or telephone number
  - Most recent 12 months of payments to credit provider
  - Rental reference from rental management company

Note: Do not rely solely on information provided by the applicant
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
  - Internet service
Two credit references can be used from the list provided below:

- Insurance premiums not payroll deducted;
- Payment to childcare providers (business);
- School tuition;
- Retail store credit cards;
- Rent-to-own;
- Patient obligation for medical bills;
- Documented 12-month history of savings evidenced by regular deposits, not through payroll deductions, that were made at least quarterly, resulting in an increased balance to the account and that were made at least quarterly, and did not cause insufficient funds (NSF) checks; and
- Personal loan from an individual with repayment terms in writing and payments made supported by canceled checks.
Non-Borrowing Spouse: Credit Report

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

The credit report must indicate the Non-Borrowing Spouse’s SSN was matched with the SSA, or the Mortgagee must provide separate documentation indicating the SSN was matched with the SSA.
Where a SSN does not exist for a Non-Borrowing Spouse, the credit report must contain, at a minimum, the Non-Borrowing Spouse’s full name, date of birth, and previous addresses for the last two years.

As a reminder, the Mortgagee does not submit the Non-Borrowing Spouse credit report as part of the TOTAL Mortgage Scorecard risk evaluation.
Evaluating Credit History
Disputed Derogatory Credit Accounts refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.
Disputed Derogatory Credit Accounts: Applicability

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

Disputed Derogatory Credit Accounts of a Non-Borrowing Spouse in a community Property state are not included in the cumulative balance for determining if the Mortgage application is downgraded to a Refer.
Non-Derogatory Disputed Accounts include the following types of accounts:

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

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

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.
The Mortgagee must:

- Include the payment amount per the agreement in the Borrower’s monthly liabilities and debt;
- Obtain a copy of the agreement;
- Evidence for at least three months that payments were made on time, in accordance with the agreement; and
- Include the subordination agreement for any liens existing on title.
Inaccuracy in Debt Considered

When an inaccuracy in the amount, or type of debt or obligation, is revealed during the application process and the correct information was not considered by the AUS, the Mortgagee must:

• Verify the actual monthly payment amount;

• Re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower’s debt increases by more than $100 per month; and

• Determine the additional debt was not/will not be used for the Borrower’s Minimum Required Investment (MRI).
Bankruptcy: Discharge Period

The Mortgagee must document the passage of two years since the discharge date of any bankruptcy.

If the bankruptcy was discharged within two years from the date of case number assignment, the Mortgage must be downgraded to a Refer and manually underwritten.

FHA does not have a requirement to downgrade for “Dismissed” bankruptcies.
Chapter 13 Bankruptcy

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

• The Mortgagee must determine that during this time:
  – The Borrower’s payment performance has been satisfactory, and all required payments have been made on time;
  – The Borrower has received written permission from bankruptcy court to enter into the Mortgage transaction.
The three-year period begins on the date Borrower transferred ownership of the Property to the foreclosing Entity/designee.
The Lender may grant an exception to the three-year requirement if:

• The foreclosure, deed-in-lieu or short sale was the result of documented extenuating circumstances that were beyond the Borrower’s control;

• The Borrower has re-established good credit since the foreclosure, deed-in-lieu or short sale.
• Divorce in it-self is not considered an extenuating circumstance
  – Exception may be granted where a Borrower’s Mortgage was current at the time of the
    Borrower’s divorce, the ex-spouse received the Property, and the Mortgage was later
    foreclosed, offered in deed-in-lieu or sold as a short sale.

• The inability to sell the Property due to a job transfer or relocation to another area
  does not qualify as an extenuating circumstance.
A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- All Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the short sale;
- Installment debt payments for the same time period were also made within the month due.
Documenting the three-year waiting period to be eligible for a new FHA-insured Mortgage:
- Use the date of foreclosure or deed-in-lieu of foreclosure reported on the credit report;
- If the credit report does not indicate the date of the foreclosure or deed-in-lieu of foreclosure, the Mortgagee must obtain the Settlement Statement/Closing Disclosure, deed, or other legal documents evidencing the date of Property transfer.

For exceptions due to extenuating circumstance, obtain an explanation and document the circumstance was beyond the Borrower’s control.
Housing Obligations/Mortgage Payment History

Definition:

- Housing Obligations/Mortgage Payment History- refers to the monthly payment due for rental or Properties owned.
  - A Mortgage Payment is considered delinquent if not paid within the month due.
  - A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.
Required Documentation

• Where 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 of 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.
# Housing Obligation: Guidelines

## Purchase and No Cash-Out Refinance Transactions

Downgraded to a Refer if any Mortgage trade line reflects:

<table>
<thead>
<tr>
<th>Most recent 12 months</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 3 x 30</td>
<td>Three or more late payments of greater than 30 Days</td>
</tr>
<tr>
<td>≥ 1 x 60 + ≥ 1 x 30</td>
<td>One or more late payments of 60 Days, plus one or more 30-Day late payments</td>
</tr>
<tr>
<td>≥ 1 x 90</td>
<td>One payment greater than 90 Days late</td>
</tr>
</tbody>
</table>

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

** Modified Mortgage utilizes the payment history, in accordance with the modification agreement for the time period of modification, in determining late housing payments.
**Housing Obligation: Guidelines (cont.)**

<table>
<thead>
<tr>
<th>Cash-Out Refinance Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downgraded to a Refer if any Mortgage trade line reflects:</td>
</tr>
<tr>
<td>• Any delinquency within 12 months of the case assignment date, and/or</td>
</tr>
<tr>
<td>• A current delinquency</td>
</tr>
</tbody>
</table>

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

** Modified Mortgage utilizes the payment history, in accordance with the modification agreement for the time period of modification, in determining late housing payments.
The Mortgagee must verify and document the previous 12 months’ housing obligation payment history through:

- The credit report;
- Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- Verification of Mortgage payments received directly from the Mortgage servicer; or
- A review of canceled checks that cover the most recent 12-month period.
Evaluating Liabilities and Debt
Closed-end Debts Paid Off Within 10 Months

Closed-end debts do not have to be included if:

• They will be paid off within 10 months; and
• The cumulative payments of all such debts are less than or equal to 5 percent of the Borrower’s gross monthly income.

The Borrower may not pay down the balance in order to meet the 10-month requirement.
Student Loans refers to liabilities incurred for educational purposes.

The Mortgagee must include all Student Loans in the Borrowers Liabilities, regardless of the payment type or status of payments.
For outstanding Student Loan, regardless of the payment status, the Mortgagee must use:

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

- Installment Loans (excluding Student Loans) refer to loans not secured by real estate, that require the periodic payment of principal and interest.

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

- If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.
The Mortgagee must use the credit report to document the terms, balance, and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the Mortgagee must:

- Obtain a copy of the most recent charge account statement; or
- Use 5 percent of the outstanding balance to document the monthly payment.
Contingent Liabilities

A contingent liability refers to a liability that may result in the obligation to repay only when a specific event occurs.

For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment.

Contingent liabilities may include cosigner liabilities and liabilities resulting from a Mortgage assumption without release of liability.
• The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower’s monthly obligations unless the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default, or the other legally obligated party has made 12 months of timely payments.

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

If the credit reports used in the analysis show a cumulative outstanding collection account balance of $2,000 or greater, the Mortgagee must:

- Verify that the debt is paid in full at the time of, or prior to, settlement using an acceptable source of funds;
- Verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower’s DTI ratio; or
- If a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower’s DTI ratio.
Business Debt in Borrower’s Name

• When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the debt must be included in the DTI calculation unless the Mortgagee obtains documentation to evidence the following:
  – The debt is paid out of company funds; and
  – The debt was considered in the cash-flow analysis of the Borrower’s business.
• When the personal Borrower’s debt is being paid by the Borrower’s business, the debt is considered:
  – In the cash flow analysis; and
  – The Borrower’s business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds.

• The Borrower’s business tax returns may show an interest expense related to the obligation; only the interest portion of the debt can be considered in the cash flow analysis.
Negative Income

Negative income must be subtracted from the Borrower’s gross monthly income and not treated as a recurring monthly liability, unless otherwise noted.
The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.
Income Requirements
General Income Requirements

The Mortgagee must:

- Document the Borrower’s income
- Document employment history
- Verify the accuracy of the amounts of income being reported
- Determine if the income can be considered as Effective Income

and
• 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 documented;
  – Be legally derived; and
  – Be reported to the Internal Revenue Service (IRS) when required.

• Negative income must be subtracted from the Borrower’s gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.
To verify the Borrower’s current employment, the Mortgagee must obtain:

• The most recent pay stub and a written Verification of Employment (VOE) covering two years; or

• Direct electronic verification of employment by a Third Party Verification (TPV) vendor covering two years.
To verify the Borrower’s current employment, the Mortgagee must obtain:
- Copies of the most recent pay stub that shows the Borrower’s year-to-date earnings;
- Copies of the original IRS W-2 forms from the previous two years; and
- A Telephone employment certification:
  - 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.
The Mortgagee must obtain:

**Pay Stubs**
Copies of the pay stubs covering the most recent 30 consecutive day period (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower’s year-to-date earnings

**Verification of Employment (VOE)**
One of the following to verify current employment:
- A written VOE covering two years
- An electronic verification acceptable to FHA
Employment Documentation: Alternative (Manual)

The Mortgagee must obtain:

- Obtain copies of the most recent pay stub that shows the Borrower’s year-to-date earnings.

- Copies of the original IRS W-2 forms from the previous two years.

- Documentation of 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.
Re-verification of Employment

- 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 employment data must be current within 30 days of the date of the verification.
Past Employment Documentation

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

- The current employer confirms a two-year employment history, or a pay stub reflects a hiring date of a minimum of two years:
  - Only base pay is used to qualify (no Overtime, Bonus, or Tip Income); and
  - The Borrower executes IRS Form 4506, *Request for Copy of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.
Past Employment Documentation (cont.)

If the Borrower has not been employed with the same employer for the previous two years and/or not all conditions previously discussed can be met (Counting Overtime/Bonus/Tip), 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)
- VOE(s)
- Electronic verification acceptable to FHA, and
- Evidence supporting enrollment in school or the military during the most recent two full years
Calculation of Effective Income: Salary

Salary refers to income that has been, and will likely be, consistently earned.

The Mortgagee must use the current salary to calculate the Effective income.
Calculation of Effective Income: Hourly

For Hourly wage earners whose:
• Hours do not vary, the Mortgagee must consider the Borrower’s current hourly rate to calculate Effective Income.
• Hours vary, the Mortgagee must average the income over the previous two years.

If the Mortgagee can document an increase in pay rate, the Mortgagee may use the most recent 12-month average of hours at the current pay rate.
Overtime, Bonus, and Tip Income refers to income that the Borrower receives in addition to the Borrower’s normal salary.

**Income received ≥ 2 years**

The Mortgagee may use this income if the Borrower has received this income for the past two years.

**Income received < 2 years**

The Mortgagee may use this income when received less than two years if the Mortgagee can document it has been consistently earned not less than one year and is reasonably likely to continue.
Overtime, Bonus, and Tip Income: Calculation

Calculation:
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

• Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

• 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
  – The income is reasonably likely to continue.

• 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.
    ▪ For all Commission Income, the Mortgagee must use traditional or alternative employment documentation
Self-Employment Income

Self-Employment Income
• Borrower has 25 percent or greater ownership

Self-Employed ≥ 2 Years
• Borrower must be self-employed for at least two years

Self-Employed 1-2 Years
• Considered Effective Income only if Borrower previously employed in which the Borrower is self-employed or in a related occupation for at least two years
The Mortgagee must obtain the Borrower’s business tax returns for the most recent two years unless the following criteria are met:

- Individual federal income tax returns show increasing Self-Employment Income over the past two years
- Funds to close are not coming from business accounts
- The Mortgage to be insured is not a cash-out refinance
• 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 date of most recent calendar or fiscal year-end tax return was filed by the Borrower.

• 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 Statement or signed quarterly tax return must be obtained from the IRS.
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.
- The average gross Self-Employment Income earned over the previous one year.
## Frequent Changes in Employment

<table>
<thead>
<tr>
<th>Changed jobs &gt; 3 times</th>
<th>Mortgagee Responsibilities</th>
<th>Excluded Fields</th>
</tr>
</thead>
</table>
| 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. | Does not apply for fields of employment that regularly require a Borrower to work for various employers (i.e. Temp Companies or Union Trades). |
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 job for at least six months at the time of case number assignment.
- There is a two year work history prior to the absence from employment using standard or alternative employment verification.
Disability benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

To calculate disability income, the Mortgagee must use the most recent benefit amount as Effective Income.

The Mortgagee must never inquire into, nor request, documentation concerning the nature of the disability or the medical condition of the Borrower.
Disability Benefits: Required Documentation

The Mortgagee must verify and document the award amount, and receipt of benefits, from the provider.

If any disability income is due to expire within three years from the date of Mortgage application, that income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.
Depending on the type of disability benefits being received, additional documentation requirements may include:

- Federal Tax Returns;

- Most recent bank statement evidencing receipt of income from the SSA;

- Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter”; or

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.
Legal Record Documentation: Effective Income

- When using a final divorce decree, legal separation agreement, or court order, the Mortgagee must obtain evidence of receipt using the following documentation for the most recent three months that supports the amount used in qualifying:
  - Deposits recorded on bank statements,
  - Canceled checks, or
  - Documentation from the child support agency.

- If the Borrower has received consistent Alimony, Child Support, or Other Maintenance payments for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.
Voluntary Documentation: Effective Income

• The Mortgagee must document the voluntary payment agreement with:
  – 12 months of canceled checks;
  – Deposit slips; or
  – Tax returns.

• If the Borrower has received consistent alimony, child support, or other maintenance payments for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.
Inconsistent Payments: All Alimony, Child Support, Maintenance

Alimony, Child Support, or other Maintenance payments have not been consistently received for the most recent six months, the Mortgagee must use the average of the income received over the previous two years to calculate Effective Income.

If Alimony, Child Support, or Maintenance Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.
Rental Income Received from the Subject Property

Rental Income (TOTAL)

Definition

• Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

Rental Income Received from the Subject Property (TOTAL)

Standard

• The Mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.
• Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.
• No income from commercial space may be included in Rental Income calculations.
### Subject Property: Required Documentation

<table>
<thead>
<tr>
<th>Borrower does not have a history of Rental Income from the subject Property:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One Unit</strong></td>
</tr>
<tr>
<td>Fannie Mae Form 1004/Freddie Mac Form 70, <em>Uniform Residential Appraisal Report</em>; Fannie Mae Form 1007/Freddie Mac Form 1000, <em>Single Family Comparable Rent Schedule</em>; and Fannie Mae Form 216/Freddie Mac Form 998, <em>Operating Income Statement</em>; showing fair market rent</td>
</tr>
<tr>
<td>The prospective executed lease, if available</td>
</tr>
</tbody>
</table>

Document the date of acquisition by providing the deed, Closing Disclosure, or other legal document.
The Mortgagee must add the net subject Property Rental Income to the Borrower’s gross income to calculate Effective Income.

The Mortgagee must use the lesser of:

- The monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998
- 75 percent of the lesser of:
  - Fair market rent reported by the appraiser, or
  - The rent reflected in the lease or other rental agreement.
## Other Real Estate Rental Income History

The Borrower has a history of Rental Income since the previous tax filing:

<table>
<thead>
<tr>
<th>One Unit</th>
<th>Two-to-Four Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower’s most recent two years executed Tax Returns, including Schedule E</td>
<td>Borrower’s most recent two years executed Tax Returns, including Schedule E</td>
</tr>
</tbody>
</table>

For properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Closing Disclosure, or other legal document.
## Property Being Vacated by the Borrower

### Rental Income from the Property being Vacated by the Borrower:

<table>
<thead>
<tr>
<th>One Unit</th>
<th>Two-to-Four Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report, Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent must be obtained on Property being vacated. Appraisal not required to be completed by an FHA Appraiser</strong></td>
<td><strong>Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) must be obtained on Property being vacated. Appraisal not required to be completed by an FHA Appraiser</strong></td>
</tr>
<tr>
<td>Minimum 25% equity in vacated Property</td>
<td>Minimum 25% equity in vacated Property</td>
</tr>
<tr>
<td>Executed one year lease agreement, commencing after the closing</td>
<td>Executed one year lease agreement, commencing after the closing</td>
</tr>
<tr>
<td>Evidence of payment of the security deposit or first month’s rent of least agreement</td>
<td>Evidence of payment of the security deposit or first month’s rent of least agreement</td>
</tr>
<tr>
<td>Evidence that the Borrower is relocating to an area more than 100 miles from the Borrower’s current Principal Residence</td>
<td></td>
</tr>
</tbody>
</table>
## Limited or No History

### Rental income Limited or No History by the Borrower:

<table>
<thead>
<tr>
<th>One Unit</th>
<th>Two-to-Four Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae Form 1004/Freddie Mac Form 70, <em>Uniform Residential Appraisal Report</em>; Fannie Mae Form 1007/Freddie Mac Form 1000, <em>Single Family Comparable Rent Schedule</em>; and Fannie Mae Form 216/Freddie Mac Form 998, <em>Operating Income Statement</em>; showing fair market rent must be obtained on the investment Property (s). Appraisal is not required to be completed by an FHA Appraiser</td>
<td>Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <em>Small Residential Income Property Appraisal Report</em>) must be obtained on the investment Property (s). Appraisal is not required to be completed by an FHA Appraiser</td>
</tr>
</tbody>
</table>

Investment Property (s) must support a minimum 25% equity position

Executed one year lease agreement

For properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Closing Disclosure, or other legal document
To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the PITI from the lesser of:

- The monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or

- 75 percent of the lesser of:
  - Fair market rent reported by the appraiser, or
  - The rent reflected in the lease or other rental agreement.
Expected Income

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not begun, but will be received within, 60 days of Mortgage closing.

The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.
The Mortgagee must verify and document that the Borrower will have sufficient income or cash reserves to support the Mortgage payment and any other obligations between the Mortgage closing and the start of the Expected Income.
Non-Taxable Income (Grossing Up)

• 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.
Non-Taxable Income (Grossing Up): Calculation

- Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower’s tax rate for the previous year.

- If the Borrower was not required to file a federal tax return for the previous tax reporting period, the Mortgagee may Gross Up the Non-Taxable Income by 15 percent.

- The Mortgagee may not make any additional adjustments or allowances based on the number of the Borrower’s dependents.
**FHA Resource Center**

<table>
<thead>
<tr>
<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Website includes option to email questions.</td>
</tr>
<tr>
<td>2</td>
<td>Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
</tr>
</tbody>
</table>
| 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 (including all non-Federal holidays) | Voicemail is available after hours or during extended wait periods.  
FHA FAQs are available after hours. |

**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
Thank you for viewing this presentation!