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

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

- 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
• 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 Mortgagor must authenticate documents obtained from an Internet website by examining portions of printouts downloaded from the Internet in a printer (URL) address, as well as the date and time of access. The Mortgagor must visit the URL or the page is password protected to verify the website exists and print out evidence documenting the Mortgagor’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.
Agenda

Part 1: Asset Requirements

Part 2: Mortgage Calculations

Part 3: TOTAL Scorecard vs Manual Underwriting

Part 4: Program Types – Refinance, New Construction, Construction to Permanent, BOOL, EEM, Weatherization, Solar and Wind Programs
General Asset Requirements

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).
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.

They must obtain:

- A copy of the Borrower’s canceled check, or
- Certification from the deposit-holder acknowledging receipt of funds, or
- A Verification of Deposit (VOD) or bank statement
- Direct electronic verification by a TPV vendor
Premium Pricing on FHA-Insured Mortgages

- Premium Pricing refers to a credit from a Mortgagee for the interest rate chosen.

- Premium Pricing may be used to pay a Borrower’s actual closing costs and/or prepaid items.

- Closing costs paid in this manner do not need to be included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.
Premium Pricing on FHA-Insured Mortgages

The funds derived from a premium priced Mortgage:

- Must be disclosed in accordance with the Real Estate Settlement Procedures Act (RESPA)
- Must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses
- May not be used for payment of debts, collection accounts, escrow shortages, missed Mortgage Payments or Judgments
Interested Party Contributions

The Mortgagee may apply Interested Party credits to the Borrower’s origination fees, other closing costs, and discount points, including any items Paid Outside Closing (POC).

The refund of the Borrower’s POCs may be used toward the Borrower’s MRI if the Mortgagee documents that the POCs were paid with the Borrower’s own funds.

The Mortgagee must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document.

When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.
Rent Below Fair Market

II.A.4.d.iii(H)(3) TOTAL and II.A.5.c.iii(H)(3) Manual 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 pro-rated over the period between execution of the sales contract and execution of the Property sale.
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 the Borrower had sufficient assets to meet the MRI, the Borrower paid closing costs and other prepaid items at the time of underwriting.

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.
Reserves

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.

Not Included:

- The amount of cash taken at settlement in cash-out transactions
- Incidental cash received at settlement in other loan transactions
- Gift funds cannot be used for Manual Underwriting, but it can be used for TOTAL Scorecard
- Equity in another Property
- Borrowed funds from any source
Reserves Requirements

One- to Two- Unit Properties

The Mortgagee must verify and document Reserves equivalent to one month’s PITI after closing.

Three- to Four-Unit Properties

For both Manual Underwriting and TOTAL Scorecard, the Mortgagee must verify and document Reserves equivalent to three months’ PITI after closing.
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.
Where 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 MRI (cont.)

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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The seller of the Property</td>
</tr>
<tr>
<td>2</td>
<td>Any other person or Entity who financially benefits from the transaction (directly or indirectly)</td>
</tr>
<tr>
<td>3</td>
<td>Anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above</td>
</tr>
</tbody>
</table>
While additional funds to close may be provided by one of these sources, if permitted under the relevant source of funds requirements, none of the Borrower’s MRI may come from these sources.

The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.
## Acceptable Asset Sources

<table>
<thead>
<tr>
<th>Acceptable Asset Sources</th>
<th>Acceptable Asset Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Checking/Savings Accounts</td>
<td>• Loans</td>
</tr>
<tr>
<td>• Cash on Hand</td>
<td>• Employer Assistance</td>
</tr>
<tr>
<td>• Retirement Accounts</td>
<td>• Sale of Personal Property</td>
</tr>
<tr>
<td>• Stocks and Bonds</td>
<td>• Trade-in of Manufactured Home</td>
</tr>
<tr>
<td>• Private Savings Clubs</td>
<td>• Sale of Real Property</td>
</tr>
<tr>
<td>• Gifts</td>
<td>• Sweat Equity</td>
</tr>
<tr>
<td>• Interested Party Contributions</td>
<td>• Trade Equity</td>
</tr>
<tr>
<td>• Downpayment Assistance Programs</td>
<td>• Rent Credit</td>
</tr>
<tr>
<td>• Secondary Financing</td>
<td>• RE Commission for Subject Property</td>
</tr>
</tbody>
</table>
Checking and Savings Accounts

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
- Verify no debts were incurred to obtain part, or all, of the MRI
Standards for Gifts

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; or

• A governmental agency or Public Entity that has a program providing homeownership assistance to:
  – Low- and moderate-income families
  – First-time homebuyers.
**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
  - 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
- 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
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law of the Borrower
Documenting the Transfer of Gifts

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, 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.
Documenting the Transfer of Gifts (cont.)

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.

Are not verified in the Borrower’s account:

Obtain the certified check or money order, or cashier’s check or wire transfer, or other official check, evidencing payment to the Borrower or settlement agent, and the donor’s bank statement or evidencing sufficient funds for the amount of the gift.
Documenting the Transfer of Gifts (cont.)

If the gift funds:

Are being borrowed by the donor and documentation from the bank or other savings account is not available:
• The Mortgagee must have the donor provide written evidence the funds were borrowed from an acceptable source, not from a party to the transaction.

The Mortgagee and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.
Secondary Financing

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property.

Any such financing that creates 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 (cont.)

<table>
<thead>
<tr>
<th>Secondary Financing for Borrower’s MRI</th>
<th>Governmental Entities and HOPE Grantees</th>
<th>HUD-Approved Nonprofits</th>
<th>Family Members</th>
<th>Private Individuals and Other Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide Mortgage Limits</td>
<td>The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.</td>
<td>The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.</td>
<td>The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.</td>
<td>The Base Loan and secondary financing amounts must not exceed the Nationwide Mortgage Limits for the area in which the property is located.</td>
</tr>
<tr>
<td>CLTV Limitations</td>
<td>No maximum Combined Loan-to-Value (CLTV).</td>
<td>No maximum Combined Loan-to-Value (CLTV).</td>
<td>The CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed 100 percent of the Adjusted Value.</td>
<td>The CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed the applicable FHA LTV limit.</td>
</tr>
</tbody>
</table>
Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower’s housing purchase, including closing costs, Mortgage Insurance Premium (MIP), or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing. A salary advance cannot be considered as assets to close.
Employer Assistance: Employer Assistance Plans

• Employer Assistance Plans: The amount received under Employer Assistance Plans may be used as cash to close.

• Required Documentation:

  Verify and document the Borrower’s receipt of assistance.

  If the employer provides this benefit after settlement, the Mortgagee must verify and document the Borrower has sufficient cash for closing.

OFFICE OF SINGLE FAMILY HOUSING
Relocation Guaranteed Purchase

The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

Required Documentation:

- Obtain an executed buyout agreement signed by all parties and receipt of funds indicating the employer or relocation service takes responsibility for the outstanding Mortgage debt.

- Verify and document the agreement guaranteeing employer purchase of the Borrower’s previous residence and the net proceeds from sale.
Trade-In of Manufactured Home

• The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower’s source of funds.

• Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.
The Mortgagee must verify and document:
- The installment sales contract or other agreement evidencing a transaction
- Value of the trade-in or sale

The Mortgagee must obtain independent documentation to support the Trade Equity.
Sweat Equity

- Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower, before closing on the Property being purchased.

- The Mortgagee may not consider the following as Sweat Equity:

  - Work to be performed using a repair escrow
  - General maintenance
  - Debris removal
  - Clean up
Sweat Equity (cont.)

The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the Source Requirements for the Borrower’s MRI.

The Mortgagee may consider any amount as Sweat Equity that has not already been included in the Mortgage amount.

Cash back to the Borrower is not permitted in Sweat Equity.
# Existing Construction: Documentation

## The Mortgagee must obtain:

- An appraisal
- The source of funds for the materials
- The Market Value of the materials
- Evidence of Contributory Value of the labor
- Documentation and verification that the work will be completed in a satisfactory manner
## New Construction: Documentation

The Mortgagee must obtain:

<table>
<thead>
<tr>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>An appraisal</td>
</tr>
<tr>
<td>The source of funds for the materials</td>
</tr>
<tr>
<td>The Market Value of the materials</td>
</tr>
<tr>
<td>Evidence of Contributory Value of the labor</td>
</tr>
<tr>
<td>The sales contract</td>
</tr>
<tr>
<td>Documentation and verification that the work will be completed in a</td>
</tr>
<tr>
<td>satisfactory manner</td>
</tr>
</tbody>
</table>

Any work completed or materials provided before the appraisal are not eligible.
Mortgage Calculations
Maximum Mortgage Amount

A Mortgage that is to be insured by FHA cannot exceed:

Nationwide Mortgage Limits
Nationwide Mortgage Limits

- Mortgage limits are calculated based on the median house prices and are established for Metropolitan Statistical Area (MSA) and county.

- FHA publishes the updated Mortgage limits for each calendar year.

- The limits are set at or between low and high-cost area limits based on the median house prices for the area.
Requests to Change Mortgage Limits

All requests to change Mortgage Limits in all areas will be handled exclusively by FHA's Santa Ana Homeownership Center.

Attn: Program Support/Loan Limits
U.S. Department of Housing and Urban Development
Santa Ana Homeownership Center
Santa Ana Federal Building
34 Civic Center Plaza, Room 7015
Santa Ana, CA 92701-4003
LTV Limitations Based on Borrower’s Credit Score

Refer to the Manual Underwriting section of the Single Family Handbook.

<table>
<thead>
<tr>
<th>If the Borrower’s Minimum Decision Credit Score is...</th>
<th>Then the Borrower is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>at or above 580</td>
<td>eligible for maximum financing.</td>
</tr>
<tr>
<td>between 500 and 579</td>
<td>limited to a maximum LTV of 90%.</td>
</tr>
</tbody>
</table>
Maximum LTV on Purchase Transactions

- The maximum LTV is 96.5 percent of the Adjusted Value.

- The maximum LTV is determined in accordance with the requirements listed in the Single Family Handbook:
  - Borrower’s MDCS
  - Programs and Products Section
  - LTV restrictions
Maximum Mortgage Amounts on Purchases

Calculation for the maximum Mortgage amount that FHA will insure on a specific purchase:

Appropriate LTV percentage \( \times \) Adjusted Value

<table>
<thead>
<tr>
<th>Adjusted Value</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum LTV</td>
<td>( \times 96.5% )</td>
</tr>
<tr>
<td>Maximum loan amount</td>
<td>$96,500</td>
</tr>
</tbody>
</table>
### LTV Restrictions: Limitations Based on Identities of Interest

An Identity-of-Interest transaction is a sale between parties with an existing Business Relationship or between Family Members.

Business Relationship refers to an association between individuals/companies entered into for commercial purposes.

The maximum LTV for Identity-of-Interest transactions on Principal Residences, including transactions where a tenant-landlord relationship exists at the time of contract execution, is restricted to 85 percent.
### Exceptions to the Maximum LTV Limitations for Identity-of-Interest Transactions

#### Exceptions to the Maximum LTV

<table>
<thead>
<tr>
<th>Family Member Transaction</th>
<th>Tenant Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower purchases a property as his/her Principal Residence from another family member (must be their Principal Residence).</td>
<td>Current tenant purchases the property he/she rented for at least six months predating the sales contract.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Builder’s Employee Purchase</th>
<th>Corporate Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee of a builder purchases one of the builder’s new houses.</td>
<td>Due to transfers, a corporation buys an employee’s house and sells it to another employee.</td>
</tr>
</tbody>
</table>
A Non-Occupying Borrower Transaction is a transaction involving two or more Borrowers where one or more of the Borrower(s) will not occupy the Property as his or her Principal Residence.

Non-Occupying Borrower Transactions are limited to 75 percent LTV if:
- A family member is selling to a family member who will be a non-occupying co-Borrower
- The property is a two- to four-unit dwelling
Adjusted Value/Property Value/Inducements to Purchase
Adjusted Value and Property Value

**Adjusted Value** is the determined value of the property used for making an FHA-insured Mortgage loan.

**Property Value** refers to the value as determined by the FHA Roster Appraiser.

For purchase transactions, the Adjusted Value is the **lesser of the**:
- Purchase price less any Inducements to Purchase;
- Property Value
Inducements to Purchase

Inducements to Purchase refer to certain excessive amounts paid by the Seller and/or other Interested Party on behalf of the Borrower that result in a dollar-for-dollar reduction to the purchase price of the property when computing the Adjusted Value, before applying the appropriate LTV percentage.
Examples of Inducements to Purchase

Inducements include, but are not limited to:

• Contributions exceeding 6 percent of the Adjusted Value;
• Contributions exceeding the origination fees, other closing costs, and discount points;
• Decorating allowances;
• Repair allowances;
• Excess rent credit;
• Moving costs;
• Paying off consumer debt;
• Personal property;
• Sales commission on the Borrower’s present residence; and
• Below-market rent, except for Borrowers who meet the Identity-of-Interest exception for family members.
Case Study: Adjusted Value Purchase

Determine the Adjusted Value for Joe and Lisa Smith’s purchase transaction:

- The property value is $250,000.
- The purchase price is $250,000.
- Per the contract, the seller agreed to contribute up to 6 percent towards the buyer’s closing costs plus an additional $1,250 to Alliance Moving Company.

What is the purchase price?
Case Study: Adjusted Value Purchase

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What is the purchase price?

ANSWER: $250,000.
Case Study: Adjusted Value Purchase

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*Are there any Inducements to Purchase?*
Case Study: Adjusted Value Purchase

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Are there any Inducements to Purchase?

ANSWER: Yes.
Case Study: Adjusted Value Purchase

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>$250,000</td>
</tr>
<tr>
<td>Inducement</td>
<td>$1,250</td>
</tr>
<tr>
<td>Property Value</td>
<td>$250,000</td>
</tr>
<tr>
<td>Adjusted Value</td>
<td>$248,750</td>
</tr>
</tbody>
</table>

The $1,250 contribution for Alliance Moving Company is an Inducement to Purchase.
Adjusted Value: Refinance
Adjusted Value Refinance

Properties acquired by the Borrower greater than or equal to 12 months prior the case assignment date:

The Adjusted Value is the Property Value.

The Adjusted Value is the Property Value:

Utilize the calculation of Adjusted Value for properties purchased 12 months or greater.
Case Study: Adjusted Value Refinance

Determine the Adjusted Value for Ralph and Doreen Taylor’s refinance transaction:

- The Taylors purchased their home 10 months ago for $150,000.
- Since then, they have remodeled their kitchen for $25,000 and updated a bathroom for $15,000.
- The Taylors believe their home now has a property value of $350,000.
- The Taylors are looking forward to refinancing their Mortgage and using their home’s new property value.
Case Study: Adjusted Value Refinance

How do we determine the Adjusted Value?

- Was the property acquired by the Borrower within the last 12 months of the case assignment date?
- How was the property acquired?
Case Study: Adjusted Value Refinance

How do we determine the Adjusted Value?

• Was the property acquired by the Borrower within the last 12 months of the case assignment date? ANSWER: Yes, 10 months.

• How was the property acquired? ANSWER: Purchase.
Case Study: Adjusted Value Refinance

Since, the Taylors acquired their home within the last 12 months, will the Taylors be able to use the new appraised value?
Case Study: Adjusted Value Refinance

Since, the Taylors acquired their home within the last 12 months, will the Taylors be able to use the new appraised value?

ANSWER: No.
Case Study: Adjusted Value Refinance

For properties acquired by the Borrower within the 12 months of the case assignment date, the Adjusted Value is the lesser of:

Borrower’s Purchase Price: \$150,000

Documented Improvements after the Purchase (+):

\n
TOTAL: \$190,000 (A)

Property Value: \$350,000 (B)

Lesser of lines (A) or (B): \$190,000 is the Adjusted Value
When documenting improvements made subsequent to the purchase within 12 months from FHA case assignment date:

- An appraisal listing the improvements and the costs made subsequent to the acquisition is not acceptable.
# Maximum LTV Ratio: Rate and Term Refinance

<table>
<thead>
<tr>
<th>Maximum LTV</th>
<th>Maximum CLTV</th>
<th>Residence Type</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>97.75%</td>
<td>97.75%</td>
<td>Principal</td>
<td>Owner-occupied for 12 months or since acquisition if acquired within 12 months of case number assignment.</td>
</tr>
<tr>
<td>85%</td>
<td>97.75%</td>
<td>Principal</td>
<td>Owner-occupied for fewer than 12 months prior to the case number assignment date or, if owned less than 12 months, has not been owner-occupied for the entire period of ownership.</td>
</tr>
<tr>
<td>85%</td>
<td>97.75%</td>
<td>For all HUD-approved Secondary Residences</td>
<td></td>
</tr>
</tbody>
</table>
Calculating Maximum Mortgage Amount: Debts

The existing debt that can be included in a Rate and Term refinance consists of:

1. Unpaid principal balance of the first Mortgage lien
2. Unpaid principal balance of any purchase money junior Mortgage
3. Unpaid principal balance of any junior liens over 12 months old as of the date of Mortgage Disbursement

Less any refund of the UFMIP
Calculating Maximum Mortgage Amount: Debts (cont.)

The existing debt that can be included in a Rate and Term Refinance consists of:

1. Ex-spouse or co-Borrower equity, as described in “Refinancing to Buy out Title Holder Equity”
2. Mortgage Insurance Premium (MIP) due on existing Mortgage
3. Late charges
4. Interest due on the existing Mortgage(s)
5. Any prepayment penalties assessed
6. Escrow shortages
7. The UPB of any unpaid Property-Assessed Clean Energy (PACE) program obligation.”
Calculating Maximum Mortgage Amount: Additional Costs

Additional allowed costs associated with the transaction can be financed into the Rate and Term transaction, including:

Associated Costs
• All Borrower-paid costs associated with the new Mortgage; and

Repairs
• Any Borrower-paid repairs required by the appraisal.
Calculating Maximum Mortgage Amount: Rate and Term Refinances

Rate and Term Refinance Maximum Mortgage Amount

Equals

1. The Nationwide Mortgage Limit for the area;
2. The sum of existing debt and certain, defined costs associated with the transaction; or
3. The maximum LTV based on the Maximum LTV Ratio set forth on the previous slides.

Less

Any Refund of UFMIP
Calculating Maximum Mortgage Amount: Rate and Term Refinances (cont.)

<table>
<thead>
<tr>
<th>The Nationwide Mortgage Limit</th>
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</thead>
<tbody>
<tr>
<td>Refer to Allowable Mortgage Parameters, Section II.A.2.</td>
</tr>
</tbody>
</table>

Cannot exceed:
- The Nationwide Mortgage Limits for the area;
- Maximum LTV ratio
The sum of existing debt and costs associated with the transaction

Such as:
1. Unpaid Principal Balance of First Mortgage;
2. Unpaid Principal Balance of any purchase money junior Mortgage;
3. Junior liens over 12 months old;
4. Ex-Spouse or co-Borrower Equity;
5. Interest due on existing Mortgage(s);
6. UPB of any unpaid PACE obligation;
7. Mortgage Insurance Premium due on existing Mortgage;
8. Any prepayment penalties;
9. Late charges;
10. Escrow Shortages, and
11. Borrower-paid costs associated with new Mortgage or repairs required by the appraisal.
### Calculating Maximum Mortgage Amount: Rate and Term Refinances (cont.)

The maximum LTV based on the Maximum LTV Ratio from the Nationwide Mortgage Limit

<table>
<thead>
<tr>
<th>Residences Type</th>
<th>LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Residences, occupied for 12 months</td>
<td>97.5 %</td>
</tr>
<tr>
<td>Borrower, occupied Property for &lt; 12 months</td>
<td>85 %</td>
</tr>
<tr>
<td>Secondary Residences</td>
<td>85 %</td>
</tr>
</tbody>
</table>
Calculating Maximum Mortgage Amount: Rate and Term Refinances (cont.)

Remember

The Maximum Mortgage is the lesser of:

1. The Nationwide Mortgage Limit for the area; or
2. A percentage of the Adjusted Value; or
3. The maximum LTV based on the Maximum LTV Ratio from above.
Simple Refinance Maximum Mortgage Calculation

The following items cannot be included in a Simple Refinance transaction:

- The unpaid principal balance of any purchase money junior Mortgage as of the month prior to Mortgage Disbursement
- The unpaid principal balance of any junior liens
- Ex-spouse or co-Borrower equity
- Any prepayment penalties assessed
Calculating Maximum Mortgage Amount – Simple Refinance

Simple Refinance Maximum Mortgage Amount equals

1. The Nationwide Mortgage Limit;
2. The sum of existing debt and certain, defined costs associated with the transaction; or
3. The Maximum LTV Ratio of 97.5 percent for Principal Residences or 85 percent for HUD-approved Secondary Residences.

less Any Refund of UFMIP
Refer to Allowable Mortgage Parameters, Section II.A.2.

Cannot exceed the lesser of:
- The Nationwide Mortgage Limit for the area; or
- A percentage of the Adjusted Value
The sum of existing debt and certain defined costs associated with the transaction;

Such as:
1. Unpaid Principal Balance of the FHA-insured first Mortgage;
2. Interest due on the existing Mortgage;
3. Unpaid Principal Balance of any PACE obligation;
4. Mortgage Insurance Premium due on the existing Mortgage;
5. Late charges;
6. Escrow shortages, and
7. Borrower-paid costs associated with the new Mortgage or repairs.
Calculating Maximum Mortgage Amount: Simple Refinance (cont.)

The maximum LTV based on the Maximum LTV Ratio from the Nationwide Mortgage Limit

<table>
<thead>
<tr>
<th>Type of Residence</th>
<th>Maximum LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Residences, occupied for 12 months</td>
<td>97.5%</td>
</tr>
<tr>
<td>Secondary Residences</td>
<td>85%</td>
</tr>
</tbody>
</table>
Calculating Maximum Mortgage Amount Streamline Refinance

The lesser of:

1. the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement plus interest and MIP due on the existing mortgage; or

2. the original principal balance of the existing Mortgage.

equals

less

Refund of UFMIP
Calculating Maximum Mortgage Amount Streamline Refinance (cont.)

Determine the unpaid principal balance of the existing Mortgage.

Add:
• Unpaid Principal Balance
• Interest due
• MIP due
2 Determine the original balance.

Beware of modifications done that added past due payments to the balance.
Case Study: Streamline Refinance

- Determine the maximum loan amount for a Streamline Refinance.
- Tentative closing for the end of July 2021.
Case Study: Streamline Refinance – Payoff

Quote Calculation Detail
Current Unpaid Principal Balance: $349,944.83
Interest calculated 06/01/2021 to 07/31/2021: $3,499.46

Sum as of Quote Date
Principal and Interest: $2,323.94
Escrow Payment: $1,303.50
Monthly Mortgage Payment: $3,627.44

Escrow Balance: $3,437.08
Suspense Balance: $1,749.72
Monthly Interest: $1,749.72

Projected Estimated Disbursements
HAZARD SFR 100 05/05/2021 $3,078.00
CITY TAX 100 05/10/2021 $3,247.51

TOTAL AMOUNT TO PAY LOAN IN FULL THROUGH 07/31/2021 is $353,444.29
## Case Study: Streamline Refinance – Authorization

<table>
<thead>
<tr>
<th>Refinance Authorization Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computed Premium</td>
</tr>
<tr>
<td>Original Property Value</td>
</tr>
<tr>
<td>Original Mortgage Amt</td>
</tr>
<tr>
<td>Original Closing Date</td>
</tr>
<tr>
<td>Old Term (in months)</td>
</tr>
<tr>
<td>Original Endorsement Date</td>
</tr>
<tr>
<td>New Closing Month</td>
</tr>
<tr>
<td>08/21</td>
</tr>
<tr>
<td>Period of Insurance</td>
</tr>
<tr>
<td>79</td>
</tr>
<tr>
<td>Refund UFMIP Factor (%)</td>
</tr>
<tr>
<td>.00000</td>
</tr>
<tr>
<td>UFMIP Earned by HUD</td>
</tr>
<tr>
<td>$5,728.29</td>
</tr>
<tr>
<td>Unearned UFMIP</td>
</tr>
<tr>
<td>$0.00</td>
</tr>
<tr>
<td>Unpaid Balance</td>
</tr>
<tr>
<td>$350,344</td>
</tr>
</tbody>
</table>
Case Study: Streamline Refinance – Result

1. Unpaid principal balance of the existing Mortgage
   - Unpaid Principal Balance of the First Mortgage as of the month prior to Mortgage disbursement: $349,944.83
   - Interest due on existing Mortgage for non-investment Properties: $3,499.46
   - MIP due on existing Mortgage: $0
   - TOTAL: $353,444.29

2. Original principal balance
   - Original principal balance: $387,614.00

The lesser of 1 and 2.

UFMIP: $0

Maximum Loan Amount: $353,444.29
Existing Subordinate Financing

Existing subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance.

There is no maximum CLTV.
New Subordinate Financing

New subordinate financing is permitted only where the proceeds of the subordinate financing are used to either:

1. Reduce the principal amount of the existing FHA-insured Mortgage; or
2. Finance the origination fees, prepaid items, other closing costs, or discount points associated with the refinance.
During this presentation we reviewed:

- Mortgage Limits
- Adjusted Value
- Property Value
- Inducements to Purchase
- Adjusted Value – Refinance
- LTV Restrictions
TOTAL Scorecard vs Manual Underwriting
Automated Underwriting refers to the use of a proprietary system (automated underwriting system, or AUS) to provide information on eligibility, documentation and other requirements, and to deliver a recommendation on the creditworthiness of the Borrower.

When processing an FHA-insured loan, the AUS must use the TOTAL Mortgage Scorecard (Technology Open To Approved Lenders) to deliver a recommendation on a Borrower’s creditworthiness, usually an “Accept,” an “Approve, or a “Refer” recommendation.

Examples = AUS examples include Fannie Mae’s Desktop Underwriter (DU) or Freddie Mac’s Loan Prospector (LP).
There are differences between loans underwritten through TOTAL vs Manual. When you are manually underwriting a Borrower, make sure that the indicator at the end of each section heading reads “Manual.”

For example:
Credit Requirements (TOTAL)
Credit Requirements (Manual)
Accept Risk Classifications Requiring a Downgrade to Manual Underwriting
II.A.4.a.v Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)

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 are 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);
• 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 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.
How Does TOTAL Work?

- The FHA Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard is a statistically derived algorithm developed by HUD to evaluate borrower credit history and application information. TOTAL is accessed through an Automated Underwriting System (AUS) and is not an AUS itself; and

- FHA TOTAL also ensures that applicants for FHA loan insurance are evaluated by the same scoring process regardless of the AUS vendor submitting the loan.
What TOTAL Does Not Do?

• TOTAL does not provide the underwriting decision.
  – The Mortgagee’s Direct Endorsement underwriter provides the underwriting decision.
  – The Mortgagee may NOT approve or deny an FHA application based solely on a risk assessment from TOTAL.

• TOTAL Scorecard does not underwrite the appraisal or analyze any appraisal data.
  – The Mortgagee’s Direct Endorsement underwriter must underwrite all appraisals according to standard FHA requirements.
Use of TOTAL Scorecard

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the final underwriting decision.

Mortgagees are expected to exercise both sound judgment and due diligence in the underwriting of a loan to be insured by FHA.
**Tolerance Levels**

The Mortgagee is not required to rescore a Mortgage if the following data elements change from the last scoring event within the described tolerance levels:

<table>
<thead>
<tr>
<th>When assessing...</th>
<th>Rescore is not required if:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Reserves</td>
<td>Cash Reserves verified are not less than 10 percent below the previously scored amount.</td>
</tr>
<tr>
<td>Income</td>
<td>Income verified is not less than 5 percent below the previously scored amount.</td>
</tr>
<tr>
<td>Tax and Insurance Escrow</td>
<td>The cumulative monthly tax and insurance escrow does not result in more than a 2 percent increase in the Total Mortgage Payment to Effective Income ratio (PTI).</td>
</tr>
</tbody>
</table>
Rescoring Requirements

The Mortgagee must rescore a Mortgage when:

- Any data element of the Mortgage changes, and/or
- New Borrower information becomes available.
- Final Interest Rate changes, and or programmatic updates occur;
The Mortgagee must obtain a new credit report and rescore the Mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the Mortgage file and the original credit report.
The Mortgagee must include in the case binder the last scoring event feedback certification (feedback document) upon which the Mortgagee made its credit decision, regardless of credit risk evaluation.
The Mortgagee must complete the following documents to evidence their final underwriting decision:

- **Final Underwriting Review Decision**
- **Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary**
- **Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application**
- **Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value**
• On form HUD-92900-LT, the Mortgagee must:
  – Indicate the CHUMS ID of the underwriter who reviewed the appraisal;
  – Complete the Risk Assessment; and
  – Enter the identification of “ZFHA” in the CHUMS ID.

• When the Feedback Certificate indicates “Accept/Ineligible,” the Mortgagee must document the circumstances or other reasons that were evaluated in making the decision to approve the Mortgage in the Remarks section.
The underwriter must record the following items on form HUD-92900-LT:

1. Their decision
2. Any compensating factors
3. Any modification of the Mortgage amount and approval conditions under the “Underwriter Comments”
4. Their DE Identification Number and signature
The Mortgagee may approve the Mortgage as eligible for FHA insurance endorsement if:

- The TOTAL Mortgage Scorecard rated the Mortgage application as Accept.

- The Mortgagee reviewed the TOTAL Mortgage Scorecard findings and verified all information entered into the TOTAL Mortgage Scorecard is consistent with Mortgage documentation; and is true, complete, and accurate.

- The Mortgage meets all FHA requirements applicable to Mortgages receiving a rating of Accept from the TOTAL Mortgage Scorecard.

- A DE underwriter underwrote the appraisal according to FHA requirements and approved the Property as acceptable for FHA Single Family insurability.
Final Underwriting Decision (Manual)

- The Mortgagee must re-underwrite a Mortgage when any data element of the Mortgage changes and/or new Borrower information becomes available.

- When a Mortgage is denied, the Mortgagee must:

  - Comply with all requirements of the Fair Credit Reporting Act (FCRA) and the Equal Credit Opportunity Act (ECOA), as implemented by Regulation B, and
  - Complete the Mortgage Credit Reject in FHA Connection
General Underwriter Responsibilities

Review each Mortgage as a separate and unique transaction.

Determine the acceptability of the appraisal, the inspections, and other Property requirements.

Evaluate the totality of the Borrower's circumstances and the impact of risk layering.

Identify and report any misrepresentations, violations of HUD requirements, and fraud.
## Approvable Ratio Requirements (Manual)

<table>
<thead>
<tr>
<th>Lowest Minimum Decision Credit Score</th>
<th>Maximum Qualifying Ratios (%)</th>
<th>Acceptable Compensating Factors</th>
</tr>
</thead>
</table>
| 500-579 or No Credit Score           | 31/43                       | • Not applicable. Borrowers with Minimum Decision Credit Scores 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                        | 37/47                       | One of the following:  
• 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:  
• verified and documented cash Reserves;  
• minimal increase in housing payment;  
• significant additional income not reflected in Effective Income; and/or  
• residual income. |
For Mortgages on New Construction, the Borrower is eligible for the Energy Efficient Homes (EEH) stretch ratios when the Property meets or exceeds the higher of:

- The latest energy code standard that has been adopted by HUD through a Federal Register Notice; or
- The applicable International Energy Conservation Code (IECC) year used by the state or local building code.

Ratios can be stretched by two percent to 33/45.

Minimal Increase in Housing Payment may be cited as a compensating factor if:

- The new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than $100 or five percent, whichever is less, and

- There is a documented 12-month housing payment history with no more than one 30-Day late payment.
Verified and Documented Cash Reserves that are equal to or exceed:

- Three total monthly Mortgage Payments (one and two units); or

- Six total monthly Mortgage Payments (three and four units).

No Discretionary Debt may be cited as a compensating factor if:

- The Borrower’s housing payment is the only open account with an outstanding balance that is not paid off monthly.

- The credit report shows established credit lines in the Borrower’s name open for at least six months.

- The Borrower can document these accounts have been paid off in full monthly for at least the past six months.
Significant Additional Income Not Reflected in Effective Income:

- The Mortgagee must verify and document the Borrower has received this income for at least one year, and it will likely continue.

- The income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Residual Income:

- Residual income may be cited as a compensating factor, provided it can be documented, and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) Lenders Handbook – VA Pamphlet 26-7, Chapter 4.9 b and e.
Refinances
FHA’s underwriting requirements for allowable refinance transactions:

- Cash-out refinances
- No cash-out refinances
  - Rate and Term refinances
  - Simple Refinances
  - Streamline Refinances
- Refinances for the Purpose of Rehabilitation or Repair; or
- Refinancing of an Existing Section 235 Mortgage
Types of Refinances

Cash-Out Refinances
A cash-out refinance is a refinance of any Mortgage or a withdrawal of equity where no Mortgage currently exists in which the Mortgage proceeds are not limited to specific purposes.

No Cash-Out Refinances
A no cash-out Refinance is a refinance of any Mortgage in which the Mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction.
# General Eligibility for Refinance

<table>
<thead>
<tr>
<th>Borrower Eligibility</th>
<th>Property Eligibility (Manufactured Homes)</th>
<th>Product Eligibility (Temporary Buydowns)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least one Borrower on the refinancing Mortgage must hold title to the Property being refinanced prior to case number assignment.</td>
<td>For a transaction involving a Manufactured Home to be considered a refinance, the Manufactured Home must have been permanently erected on a site for more than twelve months prior to case number assignment.</td>
<td>Temporary interest rate buydowns are not permitted with refinance transactions.</td>
</tr>
</tbody>
</table>
## Types of No Cash-Out Refinance Options

<table>
<thead>
<tr>
<th>Rate and Term</th>
<th>Simple Refinance</th>
<th>Streamline Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>All proceeds are used to pay</td>
<td>FHA-insured Mortgage in which all</td>
<td>Refinance of an existing FHA-insured Mortgage requiring limited Borrower credit</td>
</tr>
<tr>
<td>existing Mortgage liens on the</td>
<td>proceeds are used to pay the existing FHA-insured Mortgage lien on the subject</td>
<td>documentation and underwriting. There are two different Streamline options available.</td>
</tr>
<tr>
<td>subject Property and costs</td>
<td>Property and costs associated with the transaction.</td>
<td></td>
</tr>
<tr>
<td>associated with the transaction.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisal Required</td>
<td>Appraisal Required</td>
<td>No Appraisal Required</td>
</tr>
<tr>
<td>Any lien applicable. Refer to the</td>
<td>Current FHA Mortgage Lien</td>
<td>Current FHA Mortgage Lien</td>
</tr>
<tr>
<td>4000.1 FHA Handbook for specific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>criteria.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Mortgagee must obtain a Refinance Authorization Number from FHA Connection (FHAC) for all FHA-to-FHA refinances.
## Streamline Refinance Options

<table>
<thead>
<tr>
<th>Credit qualifying</th>
<th>Non-credit qualifying</th>
</tr>
</thead>
<tbody>
<tr>
<td>A manual underwriting credit and capacity analysis of the Borrower is required.</td>
<td>A manual underwriting credit and capacity analysis of the Borrower is not required.</td>
</tr>
</tbody>
</table>
The Mortgagee must obtain the payoff statement for the existing Mortgage.
Adjusted Value: Refinance

For properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:

- Purchase price, plus improvements made after purchase
- Property Value.
Cash-Out Refinance
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 the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.
Occupancy Requirements Documentation – Cash Out

The Mortgagee must determine the length of time the Borrower has occupied the subject Property as their Principal Residence.

If the employment documentation reflects the Subject Property as the Borrower’s current address, no further documentation is required.

If the employment documentation does not support this, then utility bills are necessary.
## Payment History Requirements (Cash Out)

The Mortgagee must document that:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Borrower has made all payments for all of their Mortgages within the month due for the previous 12 months or since the Borrower obtained the Mortgages, whichever is less.</td>
</tr>
<tr>
<td>2</td>
<td>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.</td>
</tr>
</tbody>
</table>
### Payment History Requirements (cont.)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3</strong></td>
<td>Properties with Mortgages must have a minimum of six months of Mortgage Payments.</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>Properties owned free and clear may be refinanced as cash-out transactions.</td>
</tr>
</tbody>
</table>
| **5** | A Borrower who was granted mortgage payment forbearance must have:  
  - completed the Forbearance Plan on the subject Property; and  
  - made at least 12 consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan. |
### Maximum Mortgage

<table>
<thead>
<tr>
<th>Category</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Loan-to-Value</td>
<td>80 percent of the Adjusted Value</td>
</tr>
<tr>
<td>Maximum Combined Loan-to-Value</td>
<td>80 percent of the Adjusted Value</td>
</tr>
<tr>
<td>Nationwide Mortgage Limit</td>
<td>The combined Mortgage amount of the first Mortgage and any subordinate liens cannot exceed the Nationwide Mortgage Limit, described in the National Housing Act’s Statutory Limits.</td>
</tr>
</tbody>
</table>
Rate and Term Refinances
Rate and Term Refinance transactions are only permitted on owner-occupied Principal Residences and HUD-approved Secondary Residences.

The Mortgagee must review the Borrower’s employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property and determine the length of time the Borrower has occupied the subject Property as their Principal Residence.
Payment History Requirements: Manual

The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.

<table>
<thead>
<tr>
<th>&gt; 6 Months of Mortgage Payment History</th>
<th>&lt; 6 Months of Mortgage Payment History</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower must have made all Mortgage Payments within the month due for all mortgages on all properties for the six months prior to case number assignment, and no more than one 30-Day late payment for the previous six months for all Mortgages.</td>
<td>No late payments</td>
</tr>
<tr>
<td>One late payment for the six months previous for all mortgages.</td>
<td>----</td>
</tr>
</tbody>
</table>

OFFICE OF SINGLE FAMILY HOUSING
When the purpose of the new Mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance shall be deemed to be the outstanding balance on the recorded land contract.
Cash Back to the Borrower: Excess Cash Back

When costs utilized in calculating the maximum Mortgage amount result in greater than $500 cash back to the Borrower at Mortgage Disbursement, Mortgagees may reduce the Borrower’s outstanding principal balance to satisfy the $500 cash back requirement.

The Mortgagee must submit the Mortgage for endorsement at the reduced principal amount.
Simple Refinance
Simple Refinance is only permitted on owner-occupied Principal Residences and HUD-approved Secondary Residences.

The Mortgagee must review the Borrower’s employment documentation or obtain utility bills as evidence the Borrower currently occupies the Property.
### Payment History Requirements: Manual

The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.

<table>
<thead>
<tr>
<th>&gt; 6 Months of Mortgage Payment History</th>
<th>&lt; 6 Months of Mortgage Payment History</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Borrower must have made all Mortgage Payments within the month due for all mortgages on all properties for the six months prior to case number assignment; and</td>
<td>No late payments</td>
</tr>
<tr>
<td>• No more than one late payment for the six months previous for all mortgages.</td>
<td>----</td>
</tr>
</tbody>
</table>

• 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.
The Mortgagee may utilize estimates in calculating the maximum mortgage amount to the extent that the total mortgage amount does not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.
Streamline Refinance
Streamline Refinance may be used for:

- Principal Residences
- HUD-approved Secondary Residences
- Non-owner occupied properties
Occupancy Requirements: Documentation

- The Mortgagee must review the Borrower’s employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property as their Principal Residence.

- The Mortgagee must obtain evidence that the Secondary Residence has been approved by the appropriate Jurisdictional FHA Homeownership Center.
Payment History Requirements: Streamline

Mortgage Payment History: Non-Credit Qualifying Streamline Refinance

No late payments on the subject Property for the six months prior to the case number assignment, and no more than:

- One late payment for the previous six months for all Mortgages on the subject Property;

- The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to Mortgage Disbursement.
Payment History Requirements: Streamline (cont.)

Mortgage Payment History: Credit Qualifying Streamline Refinance

No late payments for all Mortgages for the six months prior to the case number assignment date, and no more than:

• One late payment for the previous six months for all Mortgages;

• The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to Mortgage Disbursement.

• 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.
Streamline Refinance: Credit Qualifying

Borrower Eligibility:

At least one Borrower from the existing Mortgage must remain as a Borrower on the new Mortgage.

Credit qualifying Streamline Refinances must also meet all requirements of Manual Underwriting, except for any requirements for Appraisals or LTV Calculations.
Borrower Eligibility:

A Borrower is eligible for a Streamline Refinance without credit qualification if all Borrowers on the existing Mortgage remain as Borrowers on the new Mortgage.

Mortgages that have been assumed are eligible, provided the previous Borrower was released from liability.
Borrower Eligibility Exception

A Borrower on the Mortgage to be paid may be removed from title and Mortgage on a new Mortgage in cases of divorce, legal separation, or death when:

- The divorce decree or legal separation agreement awarded the Property and responsibility for payment to the remaining Borrower, if applicable; and

- The remaining Borrower can demonstrate they have made the Mortgage Payments for a minimum of six months prior to case number assignment.
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;
- 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.
Net Tangible Benefit without a Reduction in Term: Streamline

The Mortgagee must determine that there is a Net Tangible Benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions without a reduction in term.

<table>
<thead>
<tr>
<th>Fixed Rate New Combined Rate</th>
<th>One-Year ARM New Combined Rate</th>
<th>Hybrid ARM New Combined Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 0.5 percentage points below the prior Combined Rate.</td>
<td>At least 2 percentage points below the prior Combined Rate.</td>
<td>At least 2 percentage points below the prior Combined Rate.</td>
</tr>
<tr>
<td>Any ARM with &lt; 15 months to next payment change date</td>
<td>No more than 2 percentage points above the prior Combined Rate.</td>
<td>At least 1 percentage point below the prior Combined Rate.</td>
</tr>
<tr>
<td>Any ARM ≥ 15 months to next payment change date</td>
<td>No more than 2 percentage points above the prior Combined Rate.</td>
<td>At least 2 percentage points below the prior Combined Rate.</td>
</tr>
</tbody>
</table>
Net Tangible Benefit: Reduction in Term

The Net Tangible Benefit test is met if:

- The remaining amortization period of the existing Mortgage is reduced
- The new interest rate does not exceed the current interest rate
- The combined principal, interest and MIP payment does not increase by more than $50
### Standard for Refinances with a Term Reduction of 3 years or more

<table>
<thead>
<tr>
<th>From</th>
<th>From</th>
<th>To</th>
<th>To</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed Rate New Combined Rate</td>
<td>One-Year ARM New Combined Rate</td>
<td>Hybrid ARM New Combined Rate</td>
<td></td>
</tr>
<tr>
<td>Fixed Rate</td>
<td>Below the prior Combined Rate.</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Any ARM With Less Than 15 Months to Next Payment Change Date</td>
<td>No more than 2 percentage points above the prior Combined Rate.</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date</td>
<td>No more than 2 percentage points above the prior Combined Rate.</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>
Funds to Close

MUST Verify Borrower’s Funds
The Mortgagee must verify Borrower’s funds to close, in excess of the total Mortgage Payment of the new Mortgage, in accordance with the Sources of Funds (Manual) section of the Handbook.

MAY Provide Unsecured Interest-Free Loan
The Mortgagee may provide an unsecured interest-free loan to establish a new escrow account in an amount not to exceed the present escrow balance on the existing Mortgage.
Cash Back to the Borrower: Excess Cash Back

• When estimates utilized in calculating the maximum Mortgage amount result in greater than $500 cash back to the Borrower at Mortgage Disbursement, Mortgagees may reduce the Borrower’s outstanding principal balance to satisfy the $500 cash back requirement.

• The Mortgagee must submit the Mortgage for endorsement at the reduced principal amount.
Program Types – New Construction, Construction to Permanent, BOOL, EEM, Weatherization, and Solar and Wind programs
New Construction
New Construction

- Proposed Construction
- Under Construction
- Existing Less than One Year (100 percent Complete)
## New Construction: Required Inspections

### Proposed Construction

The Mortgagee must obtain one of the following:
- Copies of the building permit (or equivalent) and CO (or equivalent); or
- Three inspections (footing, framing and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI (for Modular Housing, footing and final only); or

### Under Construction

The Mortgagee must obtain:
- Copies of the building permit (or equivalent) and CO (or equivalent); or
- A final inspection performed by the local authority with jurisdiction over the Property or an ICC

### Existing < than 1 Year Construction

The Mortgagee must obtain:
- Copies of the CO (or equivalent); or
- A final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
New Construction: Required Documentation

The Mortgagee must obtain and include the following documents in the case binder:

- HUD-92541, Builder’s Certification of Plans, Specifications, and Site;
- HUD-92544, Warranty of Completion of Construction;
- Required inspections, as applicable;
- Inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect, a structural engineer, or a qualified trades person or contractor must be reported on Form HUD-92051, Compliance Inspection Report:
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD’s “Termite Treatment Exception Areas” list:
  - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder’s Guarantee;
  - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record; and
- Local Health Authority Well Water Analysis and/or Septic Report.
Construction-to-Permanent
A Construction-to-Permanent Mortgage combines the features of a construction loan (a short-term interim loan for financing the cost of construction) and the traditional long-term permanent residential Mortgage with a single Mortgage closing prior to the start of construction.
Construction-to-Permanent: Borrower Eligibility

- The builder must be a licensed general contractor.

- The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.
Construction-to-Permanent: Property Eligibility

The Borrower must:

- Be purchasing it at the closing of the construction loan
- or
- Have already owned the land
Construction-to-Permanent: Escrow Account

At closing, after funds are disbursed to cover the purchase of the land, the balance of the Mortgage proceeds must be placed in an escrow account to be disbursed as construction progresses.

The Mortgagee must obtain the Borrower’s written authorization for each draw prior to disbursing funds to the contractor.

After completion of construction, the construction escrow account must be fully extinguished, and any remaining funds must be applied to the outstanding principal balance of the permanent Mortgage.
Build on Own Land
Building on Own Land

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the Borrower and may include the extinguishing of any existing construction loans.
Build on Own Land: Borrower Eligibility

1. The Borrower must have contracted with a builder to construct the improvements.

2. The builder must be a licensed general contractor.

3. The Borrower may act as the general contractor, but only if the Borrower is also a licensed general contractor.
Energy Efficient Mortgage (EEM)
EEM Program

For cost-effective, energy efficient improvements to:

• An existing Property at the time of purchase or refinancing; or

• For upgrades above the established residential building code for New Construction.

Cost-Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.
EEM: Eligible Property Types

EEM may be used with:

- New Construction Properties (one- to four-units)
- Existing Construction Properties (one- to four-units)
- Condominiums (one unit), or
- Manufactured Housing
EEM: Home Energy Report

The Mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

The home energy report
- Reflects recommendations of energy-saving improvements for the Borrower’s consideration;
- Provides estimates of energy savings and cost-effective analysis for each of the suggested improvements. The estimates consider energy costs in today’s dollars (present value);
- Must reflect one of the professional credentials by the rater/assessor; and
- Is submitted with the insuring file.
EEM: Qualifications of Energy Raters/Assessors

Qualified home energy raters/assessors must be trained and certified as one of the following:

- Building Performance Institute / Building Analyst Professional;
- Building Performance Institute / Home Energy Professional Energy Auditor;
- Residential Energy Services Network / Home Energy Rater; or
- Energy rater, assessor, or auditor who meets local or state jurisdictional requirements.
EEM: EEM Calculator Tool

The EEM Calculator located in FHA Connection (FHAC) performs the calculation of maximum financeable energy package.

For standard 203(b) transactions:

The EEM Calculator uses data entered for the Mortgage to calculate the maximum financeable energy package.

For Streamlined Refinance:

The EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.
EEM: Cash-Out

• The Borrower may not receive cash back from the Mortgage transaction.

• If an excess exists, funds must be applied to the principal Mortgage balance.
Weatherization
Weatherization: The Basics

The weatherization product permits the Borrower to finance the cost of eligible energy-related weatherization improvements, in conjunction with a purchase or refinance.

The Borrower may not receive cash back from the Mortgage transaction.

If an excess exists, funds must be used to pay down the Mortgage principal.
Weatherization: Eligible Programs / Transaction Types

- Weatherization improvements may be financed in conjunction with the following:
  - Section 203(b) purchase or no cash-out refinance
  - Section 203(h) Mortgage Insurance for Disaster Victims
  - EEMs on existing Properties

- For financing of weatherization under the 203(k) Rehabilitation Mortgage Insurance Program, refer to 203(k) Rehabilitation Mortgage Insurance Program policy.
Weatherization: Eligible Property Types

Weatherization improvements may be used on the following Property types:

- Existing Construction Properties (one- to four-units)
- Condominiums (one unit), or
- Manufactured Housing
Solar and Wind
The Solar and Wind Technologies policy allows the Mortgagee to increase the Base Loan Amount:

- To cover the cost and installation of new Solar or Wind energy system improvements made, or to be made, to the Property, and

- At the time of a purchase or refinance.
Solar and Wind: Eligible Programs / Transaction Types

Costs for new Solar and Wind energy systems may be added to an FHA-insured base Mortgage for the following programs:

- **Section 203(b)**
  - Purchase Transaction
  - Rate and Term refinance or Simple Refinance

- **Section 203(h)**
  Mortgage Insurance for Disaster Victims

- **203(K)**
  Rehabilitation Mortgage Insurance Program
Solar and Wind: Eligible Property Types

The following Property types are eligible for the Solar and Wind technologies policy:

- One- to four-unit Properties
- Manufactured Housing (single unit)

and

Condominium units are ineligible for Solar and Wind Technologies.
The Borrower must own, not lease, Solar or Wind energy systems in order for the system to be considered eligible improvements.

Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs: 24 CFR 203.41.
The Mortgagee must document the cost of work, including the energy systems’ materials and labor.

The Borrower may not receive cash back from the Mortgage transaction.

If an excess exists the Mortgagee must apply these funds to the principal Mortgage balance.
Solar and Wind: Time of Completion and Inspection

• Installation of Solar and Wind energy systems must be completed within 120 days of the Mortgage Disbursement.

• The Mortgagee must apply the remaining Solar and Wind escrow funds to a prepayment of the Mortgage principal if the work is not completed within the required time frames.

• The Mortgagee or their agent must:

  Inspect the Solar and Wind improvement.

  or

  Obtain evidence from a local authority that the system was installed in accordance with local code.
# 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>1 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 Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>3 Telephone</td>
<td>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.</td>
<td>8:00 AM to 8:00 PM Eastern M-F (including all non-Federal holidays)</td>
<td>Voicemail is available after hours or during extended wait periods. FHA FAQs are available after hours.</td>
</tr>
</tbody>
</table>

**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!