

## Section A. Calculating Maximum Mortgage Amounts on Purchase Transactions

### Overview

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**In This Section** This section contains the topics listed in the table below.

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# 1. Maximum Mortgage Amounts on Purchases

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**Introduction** This topic contains information on maximum mortgage amounts for purchasing property, including

- maximum insurable mortgage on a purchase
  - upfront mortgage insurance premiums (UFMIP)
  - statutory loan limits, and
  - loan-to-value (LTV) limits.
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**4155.1 2.A.1.a  
Maximum  
Insurable  
Mortgage on a  
Purchase** The maximum insurable mortgage on a purchase is the lesser of the

- statutory loan limit for the area (typically a county, or metropolitan statistical area (MSA), or
- applicable loan-to-value (LTV) limit, applied to the lesser of the
  - sales price, or
  - appraised value.

The Department of Housing and Urban Development (HUD) issues a Mortgagee Letter (ML) announcing the new mortgage limits every year.

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**4155.1 2.A.1.b  
Upfront  
Mortgage  
Insurance  
Premiums** Most FHA mortgages require the payment of an upfront mortgage insurance premium (UFMIP). The statutory loan amounts and LTV limits discussed in this handbook do not include the UFMIP.

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## 1. Maximum Mortgage Amounts on Purchases, Continued

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**4155.1 2.A.1.c  
Statutory Loan  
Limits**      Statutory loan amount limits vary by program and the number of family units within the dwelling.

**References:** For more information on

- current FHA standard and high-cost area mortgage limits, see the
  - HUD website at [www.hud.gov](http://www.hud.gov), or
  - FHA Connection at <https://entp.hud.gov/clas/>, and
- the effect of secondary financing on loan limits, see HUD 4155.1 5.C.

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**4155.1 2.A.1.d  
LTV Limits**      The determination of the maximum LTV percentage available to the borrower is influenced by

- the particular mortgage insurance program
- the property type (for example, new or existing construction), and
- various transactions that affect the maximum mortgage calculation, as described in HUD 4155.1 2.B.

Once determined, the LTV percentage is then applied to the *lesser* of the sales price or the appraised value, on a purchase, to determine the maximum insurable mortgage.

**References:** For more information on

- calculating maximum mortgage amounts, see HUD 4155.1 2.A.2
  - transactions that affect maximum mortgage calculations, see HUD 4155.1 2.B, and
  - the effect of secondary financing on LTV limits, see HUD 4155.1 5.C.5.
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## 2. Calculating Maximum Mortgage Amounts on Purchases

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**Introduction** This topic contains information on how to calculate maximum mortgage amounts on purchases, including

- the maximum mortgage amount for a purchase
  - maximum LTV for purchase of proposed/new construction
  - closing costs as required investment, and
  - credit card payment for appraisal/credit report.
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**4155.1 2.A.2.a  
Maximum  
Mortgage  
Amount For a  
Purchase** The maximum mortgage amount that FHA will insure on a purchase is calculated by multiplying the appropriate loan-to-value (LTV) factor by the lesser of the property's

- sales price, subject to certain required adjustments, or
- appraised value.

In order for FHA to insure this maximum loan amount, the borrower must make a required investment of at least 3.5% of the lesser of the appraised value or the sales price of the property.

**References:** For more information on

- required adjustments to the sales price, see
    - HUD 4155.1 2.A.3
    - HUD 4155.1 2.A.4, and
    - HUD 4155.1 2.A.5
  - the maximum LTV percentage on purchases for proposed and existing construction and borrower minimum cash investment, see HUD 4155.1 2.A.2.b.
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## 2. Calculating Maximum Mortgage Amounts on Purchases, Continued

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**4155.1 2.A.2.b  
Maximum LTV  
for Purchase of  
Proposed/ New  
Construction** For purchase transactions, the maximum LTV is 96.5% percent (the reciprocal of the 3.5% required investment). Special requirements for maximum financing on properties proposed or under construction, or construction existing less than one year are stated at HUD 4155.1 2.B.7.b.

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**4155.1 2.A.2.c  
Closing Costs  
as Required  
Investment** Closing costs (non-recurring closing costs, pre-paid expenses, and discount points) may *not* be used to help meet the borrower's minimum required investment.

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**4155.1 2.A.2.d  
Credit Card  
Payment for  
Appraisal/  
Credit Report** The borrower may use a credit card to pay for the appraisal and credit report. These costs cannot be considered to help meet the required investment.

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### 3. Interested Third Party Contributions

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**Introduction** This topic contains information on the effect of contributions by interested third parties on calculating the maximum mortgage amount, including

- a definition of third party contribution
  - interested third party contribution limitation
  - payment of real estate commission, and
  - a reference for amounts exceeding the contribution limitation.
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**4155.1 2.A.3.a  
Definition:  
Third Party  
Contribution** A *third party contribution* is a payment by the seller and/or another interested third party, or a combination of parties toward the borrower's costs to close.

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### 3. Interested Third Party Contributions, Continued

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**4155.1 2.A.3.b Interested Third Party Contribution Limitation** The seller and/or third party may contribute up to six percent of the *lesser of* the property's sales price or the appraised value toward the buyer's closing costs, prepaid expenses, discount points and other financing concessions.

The six percent limit also includes

- third party payment for permanent and temporary interest rate buydowns, and other payment supplements
- payments of mortgage interest for fixed rate mortgages
- mortgage payment protection insurance, and
- payment of the upfront mortgage insurance premium (UFMIP).

**Note:** Contributions exceeding six percent are considered inducements to purchase.

**Reference:** For information on inducements to purchase, see HUD 4155.1 2.A.4.

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**4155.1 2.A.3.c Payment of Real Estate Commission** Payment of real estate commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an interested third party contribution.

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**4155.1 2.A.3.d Amounts Exceeding Contribution Limitation (Reference)** For information on the

- treatment of amounts in excess of the third-party contribution limitation discussed in HUD 4155.1 2.A.3.b, see HUD 4155.1 2.A.4, and
- maximum loan-to-value (LTV) percentage on purchases for proposed and new construction, see HUD 4155.1 2.A.2 b.

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## 4. Inducements to Purchase

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**Introduction** This topic contains information on inducements to purchase that must be considered when calculating the maximum mortgage amounts, including

- payments considered inducements to purchase
  - personal property inducements, and
  - sales commission as inducement to purchase.
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**4155.1 2.A.4.a Payments Considered Inducements to Purchase** Certain expenses paid by the seller and/or another interested third party on behalf of the borrower are considered “inducements to purchase” and result in a dollar-for-dollar reduction to the *lesser of* the sales price or appraised value of the property before applying the appropriate loan-to-value (LTV) factor.

These expenses include

- contributions exceeding 6% of the sales price
- contributions exceeding the actual cost of prepaid expenses, discount points, and other financing concessions
- decorating allowances
- repair allowances
- moving costs, and
- other costs as determined by the appropriate Homeownership Center (HOC).

**Notes:** A dollar-for-dollar sales price reduction is also required for

- excess rent credit, as described in HUD 4155.1 5.B.6.f, and
  - gift funds not meeting the requirements described in HUD 4155.1 5.B.5.
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## 4. Inducements to Purchase, Continued

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**4155.1 2.A.4.b  
Personal  
Property  
Inducements**

Personal property given by a seller and/or another interested third party to consummate the sale of a property results in a reduction in the mortgage amount. The value of the item(s) *must* be deducted from the *lesser* of the sales price or appraised value of the property before applying the LTV factor.

Depending on local custom or law, certain items may be considered part of the real estate transaction with no adjustment to the sales price or appraised value. The table below describes how to determine if personal property affects the sales price or appraised value.

If the personal property item is a ...	Then the ...
<ul style="list-style-type: none"> <li>• car</li> <li>• boat</li> <li>• riding lawn mower</li> <li>• furniture, or</li> <li>• television</li> </ul>	lender must deduct the value of the item(s) from the sales price or appraised value before applying the LTV factor.
<ul style="list-style-type: none"> <li>• range</li> <li>• refrigerator</li> <li>• dishwasher</li> <li>• washer</li> <li>• dryer</li> <li>• carpeting</li> <li>• window treatment, or</li> <li>• other items determined appropriate by the HOC</li> </ul>	HOC determines if the items are considered customary and affect the value of the property before applying the LTV factor.  <b><i>Exception:</i></b> Replacement of existing equipment or other realty items by the seller before closing, such as carpeting or air conditioners, does not require a value adjustment, provided that a cash allowance is <i>not</i> given to the borrower.

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## 4. Inducements to Purchase, Continued

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**4155.1 2.A.4.c**  
**Sales**  
**Commission as**  
**Inducement to**  
**Purchase**

Sales commissions paid by an interested third party on a borrower's present residence can be considered inducements to purchase. The table below describes the conditions under which a sales commission is subtracted from the *lesser of* the sales price or appraised value before applying the LTV factor.

<b>If the ...</b>	<b>Then the lender should ...</b>
seller and/or interested third party agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence	<ul style="list-style-type: none"><li>• treat the amount paid by the interested third party as an inducement to purchase, and</li><li>• subtract dollar-for-dollar the amount paid by the seller or other party from the <i>lesser of</i> the sales price or appraised value before applying the LTV factor.</li></ul>
<ul style="list-style-type: none"><li>• borrower is not paying a real estate commission on the sale of his/her present home</li><li>• same real estate broker or agent is involved in both transactions, and</li><li>• seller of the property being purchased by the buyer is paying a real estate commission that exceeds what is typical for the area</li></ul>	<ul style="list-style-type: none"><li>• treat the amount of commission paid by the seller that exceeds what is typical for the area as an inducement to purchase, and</li><li>• deduct that amount, dollar-for-dollar, from the <i>lesser of</i> the sales price or appraised value before applying the LTV factor.</li></ul>

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## 5. Additions to the Mortgage Amount for Repair and Improvement

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**Introduction** This topic contains information on adjustments to the mortgage amount through allowable additions to the sales price or direct additions to the mortgage amount, including

- adding repair and improvement costs to the sales price
- the repair and improvement amount that can be added to the sales price
- repair and improvement exclusions
- energy-related weatherization items
- calculating the energy-related mortgage amount
- when repairs and energy-related items cannot be completed prior to closing
- adding solar energy system costs
- a reference for information on the mortgage amount on HUD REO sales with repair escrow, and
- a reference for energy efficient mortgage calculation.

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**4155.1 2.A.5.a Adding Repair and Improvement Costs to Sales Price** Repairs and improvements may be added to the sales price before calculating the mortgage amount when the

- repairs and improvements are
  - required by the appraiser as essential for property eligibility, and
  - paid by the borrower, and
- sales contract or addendum identifies the borrower as responsible for
  - payment, and
  - completion of the repairs.

**Important:** Only repairs and improvements *required* by the appraiser may be included.

**References:** For information on

- the repair and improvement amount that can be added to the sales price, see HUD 4155.1 2.A.5.a, and
  - repair and improvement exclusions, see HUD 4155.1 2.A.5.c.
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## 5. Additions to the Mortgage Amount for Repair and Improvement, Continued

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### 4155.1 2.A.5.b Repair and Improvement Amount That Can Be Added to Sales Price

The repair and improvement amount that may be added to the sales price before calculating the maximum mortgage amount is the lowest of the

- amount that the value of the property exceeds the sales price
  - appraiser's estimate of repairs and improvements, or
  - amount of the contractor's bid, if available.
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### 4155.1 2.A.5.c Repair and Improvement Exclusions

Repairs and improvements completed by the borrower *before* the appraisal are *not* eligible to be included when calculating the maximum mortgage. This amount becomes part of the borrower's required cash investment.

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### 4155.1 2.A.5.d Energy-Related Weatherization Items

The mortgage amount may be increased if the cost of energy-related weatherization items paid by the borrower is added to the property. Examples of energy-related weatherization items include

- thermostats
- insulation
- storm windows and doors, and
- weather stripping and caulking.

These items may be added to both the sales price and the appraised value before determining the maximum mortgage amount.

**Note:** A contractor's statement of the cost of work completed, or the buyer's estimate of the cost of materials must be submitted.

**Reference:** For information on cost estimates and statements of costs of work for weatherization items, see [HUD 4150.1](#), *Valuation Analysis for Home Mortgage Insurance*.

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## 5. Additions to the Mortgage Amount for Repair and Improvement, Continued

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- 4155.1 2.A.5.e**  
**Calculating the Energy-Related Mortgage Amount**
- The energy-related amount that can be added when calculating the maximum mortgage amount is
- \$2,000 without a separate value determination
  - up to \$3,500, if supported by a value determination by an approved FHA roster appraiser or Direct Endorsement (DE) Underwriter, or
  - more than \$3,500
    - subject to a value determination by an approved FHA roster appraiser or DE Underwriter, and
    - with a separate on-site inspection made by a FHA-approved fee inspector or DE staff appraiser.
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- 4155.1 2.A.5.f**  
**When Energy Related Items Cannot Be Completed Prior to Closing**
- If repairs and energy-related items cannot be completed before loan closing due to weather-related delays, the lender *must* establish an escrow account to ensure all required repairs are eventually completed.
- References:** For more information on
- repairs and improvements, see [HUD 4145.1, REV-2](#), *Architectural Processing and Inspections for Home Mortgage Insurance*, and
  - satisfying repair requirements, see HUD 4155.2 4.6.
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## 5. Additions to the Mortgage Amount for Repair and Improvement, Continued

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### 4155.1 2.A.5.g Adding Solar Energy System Costs

The cost of solar energy systems may be added directly to the mortgage amount before adding the upfront mortgage insurance premium (UFMIP), and after applying the loan-to-value (LTV) factor limits.

The amount added is limited to the *lesser* of the solar energy system's

- replacement cost, or
- effect on the property's market value.

The statutory mortgage limit for the area also may be exceeded by 20% to accommodate the cost of the system.

*Note:* Active and passive solar systems, as well as wind-driven systems are acceptable.

*Reference:* For more information on adding solar energy system costs, see [HUD 4150.1](#), *Valuation Analysis for Home Mortgage Insurance*.

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### 4155.1 2.A.5.h Mortgage Amount for HUD REO Sales With Repair Escrows (Reference)

For information on calculating the mortgage amount for HUD Real Estate Owned (REO) sales with repair escrows, see HUD 4155.1 6.A.10.a.

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### 4155.1 2.A.5.i Energy Efficient Mortgage Calculation (Reference)

For information on the mortgage calculation for the Energy Efficient Mortgage Program, see HUD 4155.1 6.D.

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