

Section A. Special Underwriting Instructions

Overview

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

Topic	Topic Name	See Page
1	FHA's TOTAL Mortgage Scorecard	6-A-2
2	Temporary Interest Rate Buydowns	6-A-7
3	Construction Permanent Mortgage Program Eligibility	6-A-10
4	Construction Permanent Mortgage Program Requirements	6-A-13
5	Construction Permanent Mortgage Documentation Requirements for Closing and Endorsement	6-A-16
6	Mortgage Insurance for Disaster Victims	6-A-17
7	Energy Efficient Homes	6-A-25
8	Restriction on Advanced Mortgage Payments	6-A-28
9	Condominium Units Utility Expenses	6-A-29
10	HUD Real Estate Owned (REO) Acquisitions	6-A-30

1. FHA's TOTAL Mortgage Scorecard

Introduction This topic contains information on the TOTAL Mortgage Scorecard, including

- a description of TOTAL and the TOTAL Scorecard
- a comparison of TOTAL to an Automated Underwriting System (AUS)
- TOTAL risk assessments
- TOTAL rescoring and tolerance levels
- TOTAL Mortgage Scorecard User Guide, and
- TOTAL Scorecard for sponsored third-party originations.

Change Date March 24, 2011

4155.1 6.A.1.a Description of TOTAL The acronym "TOTAL" stands for "Technology Open To Approved Lenders."

[FHA's TOTAL Mortgage Scorecard](#) evaluates the overall creditworthiness of the borrower, based on a number of credit variables and, when combined with the functionalities of the Automated Underwriting System (AUS), indicates a recommended level of underwriting and documentation to determine a loan's eligibility for insurance by the FHA.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.b TOTAL is not an AUS; it is a scorecard used *within* an AUS.

**Comparison of
TOTAL to AUS**

To underwrite a loan electronically, a lender must process the request through an AUS that can communicate with TOTAL. TOTAL operates as a system-to-system connection to an AUS.

Together, TOTAL and the AUS either conclude that the borrower's credit and capacity for repayment of the mortgage are acceptable or will refer the loan application to a Direct Endorsement (DE) underwriter for further consideration and review.

Regardless of the risk assessment provided by TOTAL, the lender remains accountable for compliance with FHA's eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered in the FHA [TOTAL Mortgage Scorecard User Guide](#).

Example: FHA will not be responsible for checking, through TOTAL, lender compliance with maximum mortgage amounts, computing debt-to-income ratios or other functions typically performed by an AUS. TOTAL provides only an assessment of the borrower's credit and capacity to repay.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.c TOTAL Risk Assessments

TOTAL will return a risk assessment of

- “Accept” or “Approve” (different AUSs use different wording), or
- “Refer.”

The table below describes the lender's actions required for each TOTAL recommendation.

TOTAL Assessment	Lender Requirements
Accept/Approve	This recommendation means that, based on the analysis of the borrower's credit and capacity to repay, the loan is eligible for FHA insurance, provided that data entered into the AUS is true, complete, properly documented and accurate; and the documentation and other eligibility requirements are met.
Refer	<p>This recommendation means that the lender must conduct a manual underwriting review, according to FHA requirements.</p> <p>The lender's DE underwriter <i>must</i> determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements.</p>

Note: Per FHA policy, a borrower *will not be* denied an FHA mortgage solely on the basis of a risk assessment generated by TOTAL.

Continued on next page

1. FHA’s TOTAL Mortgage Scorecard, Continued

**4155.1 6.A.1.d
TOTAL
Rescoring and
Tolerance
Levels**

TOTAL provides a risk assessment based on the specific data entered by the lender, such as terms and conditions of the loan, income and assets. Changes in those variables can result in a different risk assessment, and FHA requires that the loan be rescored using the new information.

However, where the differences are minor, rescoring is unlikely to trigger a different risk assessment. FHA therefore, provides a degree of tolerance before requiring rescoring.

The table below describes the tolerance levels for rescoring when assessing income, assets and qualifying ratios.

When assessing ...	There is no need to rescore <i>if</i> the...
cash reserves	cash reserves verified are not more than 10% less than what the borrower reported on the loan application.
income	verified income is not more than 5% less than what the borrower reported on the loan application.
qualifying ratios	tax and insurance escrows used at scoring do not result in more than a 2% increase in the payment and debt-to-income ratios.

**4155.1 6.A.1.e
TOTAL
Mortgage
Scorecard User
Guide**

FHA has developed the [TOTAL Mortgage Scorecard User Guide](#), which is a compilation of the specific credit policies and documentation requirements lenders must follow when using TOTAL.

The instructions in the Guide pertain *only* to those mortgage applications that had a TOTAL risk assessment, including those loan applications referred to an underwriter for manual underwriting.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.f
TOTAL
Scorecard for
Sponsored
Third-Party
Originations

Loan origination companies acting as sponsored third-party originators (TPO) can access TOTAL through any AUS that is integrated with TOTAL.

The AUS should transmit the [TPO](#)'s Employer Identification Number (EIN) in the *Sponsored Originator EIN* field. If the AUS is unable to transmit the EIN, the number "6999609996" should be transmitted in the *Lender ID* field.

Either the Lender ID or the TPO EIN must be sent in the request to TOTAL. If neither or both is submitted, TOTAL will return an error code.

Reference: For more information, see the TOTAL Mortgage Scorecard Developer's Guide at <http://www.hud.gov/pub/chums/aus-developers-guide.pdf>.

2. Temporary Interest Rate Buydowns

Introduction This topic contains information on temporary interest buydowns, including

- purpose of a temporary interest rate buydown
 - transactions eligible for buydowns
 - source of buydown funds
 - underwriting requirements for temporary buydowns
 - lender funded buydowns
 - lender responsibilities for temporary interest rate buydowns, and
 - escrow agreement requirements for temporary interest rate buydowns.
-

Change Date March 24, 2011

4155.1 6.A.2.a Purpose of a Temporary Interest Rate Buydown Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage.

At settlement, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

4155.1 6.A.2.b Transactions Eligible for Buydowns Temporary interest rate buydowns are permitted *only* on

- purchase transactions, and
- fixed-rate mortgages.

4155.1 6.A.2.c Source of Buydown Funds Buydown funds may come from

- the seller
- the lender
- the borrower, or
- any other interested party.

Funds from the seller or any other interested third party are considered seller contributions, and *must* be included when considering the limit on seller contributions described in HUD 4155.1 2.A.3.

Continued on next page

2. Temporary Interest Rate Buydowns, Continued

4155.1 6.A.2.d Underwriting Requirements for Temporary Buydowns While interest rate buydowns are permitted, the loan must be underwritten at the Note rate. Lenders may *not* underwrite at the buydown rate.

Buydowns may be treated *only* as a compensating factor.

4155.1 6.A.2.e Lender Funded Buydowns Lender-funded buydowns financed through premium pricing are acceptable, provided the loan complies with all the requirements stated in this section.

Reference: For more information on lender responsibilities for temporary interest rate buydowns, see HUD 4155.1 6.A.2.f.

4155.1 6.A.2.f Lender Responsibilities for Temporary Interest Rate Buydowns Lenders are responsible for ensuring that

- the buydown must not result in a reduction of more than two percentage points below the interest rate on the Note
- the bought-down rate may increase by no more than one percentage point per year
- the borrower's payment may change only once a year

the escrow agreement meets the requirements described in HUD 4155.1 6.A.2.g

- the funds described in the escrow agreement are placed in escrow before or at closing, and
- a copy of the fully-executed escrow agreement, signed by the borrower and provider of funds, is provided in the case binder.

Note: The underwriter may condition the loan approval for an executed buydown agreement at closing.

Continued on next page

2. Temporary Interest Rate Buydowns, Continued

4155.1 6.A.2.g
Escrow
Agreement
Requirements
for Temporary
Interest Rate
Buydowns

The escrow agreement requirements with which all buydowns must comply are listed below.

- Any remaining escrow funds not distributed at the time the mortgage loan is prepaid must be applied to the outstanding balance due on the mortgage.
- In the event of foreclosure, the claim for mortgage insurance benefits must be reduced by the amount remaining in the buydown escrow account, if any.
- The escrow agreement
 - *may* provide that assistance payments continue to borrowers who assume the mortgage
 - must *not* permit reversion of undistributed escrow funds to the provider if the property is sold or the mortgage is prepaid in full, and
 - must *not* allow unexpended escrow funds to be provided to the borrower in cash, unless the borrower established the escrow account.
- Escrow funds must be held in an escrow account by a financial institution supervised by a Federal or state agency.
- Payments must be made by the escrow agent to the lender or servicing agent. If escrow payments are *not* received for any reason, the borrower is responsible for making the total payment as described in the mortgage note.
- FHA does *not* object to having the lender hold and administer the escrow funds for up to 60 days, when there is an outstanding forward commitment to sell the mortgage.

Note: The escrow agreement text can also apply to repair escrows.

Reference: For additional information on repair escrows, see HUD 4155.2 4.6.d.

3. Construction Permanent Mortgage Program Eligibility

Introduction This topic contains information on the eligibility criteria for a loan to be considered a construction permanent mortgage loan, including

- construction permanent mortgage features
 - closing and insuring a CP loan, and
 - construction permanent mortgage documentation requirements.
-

Change Date March 24, 2011

**4155.1 6.A.3.a
Construction
Permanent
Mortgage
Features**

A construction permanent (CP) mortgage loan

- 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
 - involves only one closing
 - is considered a purchase transaction, for mortgage insurance and loan-to-value (LTV) purposes, and
 - is made directly to an approved borrower by a lender.
-

**4155.1 6.A.3.b
Closing and
Insuring a CP
Loan**

On a CP mortgage loan, there is only one closing, which occurs prior to the start of construction. At closing, funds are disbursed to cover the purchase of the land, and the balance of the mortgage proceeds are placed in an escrow account to be disbursed as construction progresses.

Important: The loan is *not* insured until *after* construction is completed.

Continued on next page

3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Construction Permanent Mortgage Documentation Requirements The table below describes various elements of an eligible CP loan and documentation requirements necessary for FHA mortgage insurance.
Reference: For more information on CP requirements, see HUD 4155.1 6.A.4 and HUD 4155.1 6.A.5.

Criteria	Description
Contract with the Builder	<p>The borrower has contracted with a builder to construct the improvements, and must provide a copy of the fully-executed contract agreement, including the contractor’s price to build.</p> <p><i>Note:</i> This program is <i>not</i> available to a borrower acting as his/her own general contractor, <i>unless</i> the borrower is a licensed builder by profession. In this case, the acquisition cost must be determined by the actual documented cost to construct the improvements.</p>
Lot Ownership	<p>The borrower must own or be purchasing the lot at the closing of the construction permanent mortgage.</p> <p><i>Note:</i> If the contractor owns the lot, the lot must be included in the total contract price.</p>
Lot Acquisition	<p>If the borrower purchased the lot within the past six months, he/she <i>must</i> provide a copy of the HUD-1 <i>Settlement Statement</i>, or other settlement statement showing the acquisition cost.</p> <p>If the borrower owns the lot free-and-clear, the lender must document the date of ownership and omission or any liens from title work and settlement statements.</p>
Draw on Loan to Pay Off Lot Purchase	<p>If the initial draw on the loan was for the purpose of paying off the lot, the borrower must provide a statement verifying the amount.</p>

Continued on next page

3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Construction Permanent Mortgage Documentation Requirements Documentation Requirements (continued)

Criteria	Description
Verification of Loan Balance/Escrow Account	<p>The balance on the loan, when it is fully drawn, must be verified.</p> <p>The construction escrow account, if established, must be fully extinguished. Any remaining funds must be applied to the outstanding balance of the permanent loan.</p>
Extras/Out-of-Pocket Costs	<p>If the borrower is including extras over and above the contract specifications, and/or is paying out-of-pocket expenses over and above the interim loan, then he/she must provide</p> <ul style="list-style-type: none"> • a breakdown of the extras and/or expenses • the cost of each • canceled checks, and • paid receipts.

4. Construction Permanent Mortgage Program Requirements

Introduction This topic contains closing and post-closing information on the construction permanent mortgage program, including

- maximum mortgage amount
 - establishing land value and borrower's equity
 - permanent loan interest rate
 - disclosure to the borrower on eligibility for insurance
 - remitting UFMIP
 - builder's responsibility for construction period fees
 - borrower's approval of CP draws, and
 - request for endorsement and start of amortization.
-

Change Date March 24, 2011

4155.1 6.A.4.a Maximum Mortgage Amount for Construction Permanent (CP) Loan The maximum mortgage amount for a construction permanent (CP) loan is determined by applying the loan-to-value (LTV) limits to the *lesser* of the appraised value or the acquisition cost.

The acquisition cost includes

- the builder's price to build
- borrower-paid extras over and above the contract specifications and/or out-of-pocket expenses over and above the interim loan
- cost of the land, and
- closing costs.

References: For more information

- on establishing the value of the land, see HUD 4155.1 6.A.4.b, and
 - documentation required on borrower-paid extras and expenses and the builder's price, see HUD 4155.1 6.A.3.c.
-

Continued on next page

4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.b Establishing Land Value and Borrower's Equity on a CP Loan

Equity in the land may be used for the borrower's downpayment. However, if the advancement of the permanent loan results in the borrower receiving cash out in excess of \$500, the maximum LTV is limited to 85%.

If the land has been owned more than six months, or was received as an acceptable gift, the *value* of the land may be used instead of its cost.

Note: If the value of the land is lower than acquisition cost, the value must be used in calculating the maximum mortgage amount.

Important: If the contractor for the improvements is also the seller of the land, the total acquisition cost for maximum mortgage purposes is the borrower's purchase price.

4155.1 6.A.4.c Permanent Loan Interest Rate on CP Loan

The permanent mortgage loan interest rate is established at closing. However, a lender may offer a "ceiling/floor" where the borrower may "float" the interest rate during construction.

The agreement between the lender and the borrower must provide that, at the point of interest rate lock-in, the permanent mortgage

- will *not* exceed a specific maximum interest rate, based on market fluctuations, and
- will permit the borrower to lock-in at a lower rate depending on the market.

The borrower must qualify for the mortgage at the maximum rate at which the permanent mortgage may be set.

4155.1 6.A.4.d Disclosure to the Borrower on CP Loan

The lender must provide a disclosure to the borrower explaining that

- the loan is *not* eligible for FHA mortgage insurance until after
 - a final inspection, or
 - issuance of a certificate of occupancy by the local governmental jurisdiction, whichever is later, and
 - FHA has no obligation until the mortgage is endorsed for insurance.
-

Continued on next page

4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.e For more information on CP eligibility and other documentation requirements, see HUD 4155.1 6.A.3 and HUD 4155.1 6.A.5.
CP Loan Eligibility and Documentation (Reference)

4155.1 6.A.4.f FHA must receive the upfront mortgage insurance premium (UFMIP) within 10 calendar days of closing, or other time period as may be prescribed by FHA.
Remitting UFMIP on a CP Loan

4155.1 6.A.4.g Unless a separate agreement is made specifying responsibility, the following are paid by the builder during the construction period:
Builder's Responsibility for Construction Period Fees

- construction loan interest
- commitment fees
- inspection fees
- title update charges
- real estate taxes
- hazard insurance, and
- other financing charges incurred.

4155.1 6.A.4.h On a CP loan, the lender must obtain written approval from the borrower before each draw payment is provided to the builder.
Borrower Approval of CP Draws

4155.1 6.A.4.i Within 60 days of the final inspection or issuance of the certificate of occupancy, whichever is later, the lender must submit a request for endorsement.
Request for Endorsement and Start of Amortization on CP Loan

Amortization must begin no later than the first of the month following 60 days from the date of the final inspection or issuance of certificate of occupancy.

Note: During construction, the loan is *not* FHA-insured.

5. Construction Permanent Mortgage Documentation Requirements for Closing and Endorsement

Introduction This topic contains information on the documentation requirements for closing and endorsing a construction permanent mortgage loan, including

- documentation requirements for closing a CP loan, and
 - documentation required prior to endorsement of a CP loan.
-

Change Date March 24, 2011

4155.1 6.A.5.a Documentation Requirements for Closing a CP Loan Standard FHA documents are used when closing a construction permanent (CP) mortgage loan, with the addition of a

- Construction Rider to the Note, and
- Construction Loan Agreement.

These construction documents may be in any form acceptable to the lender, but they must provide that all special construction terms end when the construction loan converts to a permanent loan.

After conversion, only the permanent loan terms (using standard documents) continue to be effective, making the permanent loan eligible for FHA mortgage insurance.

4155.1 6.A.5.b Documentation Required for Endorsement of a CP Loan Prior to endorsement, the lender must obtain

- a certification that the mortgaged property is free and clear of all liens other than the mortgage, signed by the borrower after conversion to the permanent loan
 - verification that the construction loan has been fully drawn down
 - copies of canceled checks and paid receipts for all the borrower's out-of-pocket construction costs, and
 - all property-related requirements for new construction.
-

6. Mortgage Insurance for Disaster Victims – Section 203(h)

Introduction This topic contains information on mortgage insurance for disaster victims, including

- description of the Section 203(h) program
 - required evidence of destruction of residence for 203(h)
 - eligible properties for 203(h)
 - maximum financing for eligible borrowers under 203(h)
 - Section 203(h) maximum mortgage amounts
 - 203(h) application deadline
 - using Section 203(k) with 203(h) for rehabilitation
 - maximum financing for 203(k) with 203(h)
 - Section 203(h) underwriting guidance, and
 - Section 203(h) scenarios and general underwriting guidance.
-

Change Date March 24, 2011

4155.1 6.A.6.a Description of the Section 203(h) Program Under the Section 203(h), *Mortgage Insurance for Disaster Victims* program, FHA provides mortgage insurance to assist victims of presidentially-declared disasters. This program goes into effect when the president declares the disaster, and remains in effect for one year from the date of declaration.

The Federal Emergency Management Agency (FEMA) provides listings of the

- specific affected counties and cities, and
- corresponding disaster declaration dates.

Note: The FEMA information can be found at <http://www.fema.gov/disasters>.

Reference: For more information on the Section 203(h) program, see HUD 4155.2 1.C.3.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

**4155.1 6.A.6.b
Required
Evidence of
Destruction of
Residence for
203(h)**

Under Section 203(h), the borrower’s previous residence must have been in the disaster area, and must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. Borrowers must provide conclusive evidence of these facts, as outlined in the table below.

Note: The borrower may have been the owner or a renter of the affected property.

Conclusive evidence of ...	Includes ...
a permanent residence in the affected area	<ul style="list-style-type: none"> • a valid driver’s license • a voter registration card, or • utility bills.
destruction of the residence	<ul style="list-style-type: none"> • an insurance report • an inspection report by an independent fee inspector or government agency, or • conclusive photographic evidence showing the destruction or damage.

**4155.1 6.A.6.c
Eligible
Properties for
203(h)**

The following properties are eligible under the Section 203(h) program:

- one-unit detached homes, or
- units in FHA-approved condominium projects.

Two, three, and four unit properties *may not* be purchased under the program.

Reference: For more information on eligibility for the Section 203(h) program, see HUD 4155.2 1.C.3.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.d Maximum Financing and Minimum Credit Score for 203(h) Borrowers

Under the 203(h) program, an eligible borrower may receive financing of 100% of the sales price, and no downpayment is required, provided that the borrower has a minimum credit score of 500. Borrowers with decision credit scores below 500 are *not* eligible for FHA financing.

Closing costs and prepaid expenses *not* paid by the seller must be paid

- by the borrower in cash, or
- through premium pricing.

Note: Adjustable Rate Mortgages (ARMs) may be used with the Section 203(h) program.

4155.1 6.A.6.e Section 203(h) Maximum Mortgage Amounts

Maximum mortgage amounts for the Section 203(h) program are the same as for the Section 203(b) program.

The list can be accessed

- from the lender's page on HUD's website at <http://www.hud.gov/lenders/>,
or
- on the FHA Connection (FHAC) at <https://entp.hud.gov/clas/>.

Reference: For information on the Section 203(b) program and maximum mortgage amounts, see HUD 4155.2 1.C.2.

4155.1 6.A.6.f 203(h) Application Deadline

The borrower's mortgage loan application must be submitted to the lender within one year of the president's declaration of the disaster.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

**4155.1 6.A.6.g
Using Section
203(k) With
203(h) for
Rehabilitation**

The requirement to complete a dwelling more than one year preceding the date of the mortgage insurance application under the Section 203(k), *Rehabilitation Home Mortgage Insurance* program, does *not* apply to properties in a disaster area.

Damaged residences are eligible for Section 203(k) mortgage insurance, regardless of the age of the property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k).

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided the existing foundation system is not affected, and will remain in place and be used. The complete foundation system must remain in place.

Reference: For more information on the Section 203(k) program, see HUD 4155.2 1.C.5.

**4155.1 6.A.6.h
Maximum
Financing for
203(k) with
203(h)**

The type of mortgage being made determines the percentage of financing available, when using Section 203(k) with 203(h). In other words, normal loan-to-value (LTV) ratios apply to Section 203(k) mortgages made in disaster areas.

Reference: For more information on the Section 203(k) program, see HUD 4155.2 1.C.5.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.i Section 203(h) Underwriting Guidance

Since many borrowers affected by a major disaster will experience difficulties providing traditional documentation regarding employment and funds for closing, lenders should be as flexible as prudent decision-making permits, when applying FHA's underwriting criteria and documentation requirements.

To the extent possible, lenders should be accommodating towards borrowers

- eligible for Section 203(h) mortgages, whether or not they opt for another FHA program, such as 203(k), regarding gaps in
 - employment
 - documentation for employment
 - available funds, and
 - qualifying ratios, and
- when evaluating the following that were the direct result of a disaster, as reported into the Credit Alert Interactive Voice Response System (CAIVRS):
 - recent derogatory credit
 - bankruptcy
 - foreclosure
 - deed-in-lieu of foreclosure, and
 - delinquent federal obligations.

The guiding principle is to provide FHA financing to disaster victims who can make mortgage payments, but may not be able to provide the traditional documentation to support their ability to repay the loan.

Reference: For more information on documentation requirements for disaster victims, see HUD 4155.1 6.A.6.j.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance

The table below contains

- scenarios involving disaster victims, and
- guidelines for using alternative documentation when traditional documentation is unavailable.

Note: The guidelines below are meant to provide general guidance *only* and do not address *all* of the circumstances in which alternative documentation can be used. Each case is different, and ultimately needs to be evaluated on its own merits.

Underwriting Category	Guideline
Credit	<p>Lenders should be able to determine if derogatory credit occurred subsequent to a disaster.</p> <p>If the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster can be related to the effects of the disaster, FHA will consider that the borrower is a satisfactory credit risk.</p>
CAIVRS	<p>FHA determines that a borrower is not eligible for FHA insurance if CAIVRS indicates the borrower is presently delinquent, or has had a claim paid within the previous three years on a loan made or insured by HUD on his/her behalf. To the list of <i>exceptions</i> to this rule, FHA is adding situations involving presidentially-declared disasters.</p> <p>If the borrower is reported in CAIVRS, but the credit report indicates the loan was current prior to the disaster, and any delinquency or claim paid can be related to the effects of the disaster, the borrower may be considered eligible.</p> <p>As with any CAIVRS authorization, lenders may contact the appropriate Homeownership Center (HOC) for additional Section 203(h) underwriting information and guidance.</p> <p>References: For more information on</p> <ul style="list-style-type: none"> • eligibility for Federally-related credit, see HUD 4155.1 4.A.6, and • the requirement to screen borrowers using CAIVRS, see HUD 4155.1 4.A.8.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance (continued)

Underwriting Category	Guideline
Income	<p>Borrowers affected by a disaster may not be able to document past or present employment. If prior employment cannot be verified because records are destroyed, and he/she has a current position in the same or similar field, it may still be possible to consider the income.</p> <p>W-2s and tax returns may be obtained from the Internal Revenue Service (IRS) to confirm prior employment and income. If this information cannot be obtained on a timely basis, the credit report may indicate the borrower’s prior employment.</p> <p>Lenders can consider short-term employment, due to the disaster. It is anticipated that lenders will make every effort to obtain documentation about prior employment, and FHA will be flexible on the documentation requirements.</p> <p><i>Note:</i> Lenders should document their efforts to obtain traditional employment and income documentation.</p>
Qualifying Ratios	<p>When a borrower is purchasing a new home, yet still has an outstanding mortgage on a property located in a FEMA Disaster Area, the lender may exclude the mortgage payment on the previous residence from the qualifying ratio calculations, <i>if</i> the borrower provides the lender with information indicating that</p> <ul style="list-style-type: none"> • he/she is working with the servicing lender to appropriately address his/her mortgage obligation, and • any property insurance proceeds will be applied to the mortgage on the damaged home.
Assets	<p>If hard copy bank records are unavailable, the lender should encourage the borrower to access his/her financial institution’s website to download statements confirming the assets needed to close the loan.</p> <p>Lenders should document their attempts to verify assets, and make every effort to ensure that borrowers will have sufficient funds to complete the transaction.</p>

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance (continued)

Underwriting Category	Guideline
Liabilities	<p>When a borrower has a continued mortgage obligation on a prior loan securing a property that has been destroyed or damaged, FHA understands that the record may show late payments as a result of a disaster.</p> <p>The lender should not consider the outstanding mortgage obligation on a destroyed or seriously damaged property when determining a borrower's ability to make payments on a new loan, provided the requirements under Qualifying Ratios in this table have been met.</p> <p>FHA takes the position that insurance settlements are likely to pay off remaining obligations.</p> <p>However, if a borrower was three or more months delinquent on his/her loan <i>prior</i> to the disaster, and the property is destroyed, it would not be prudent for the lender to make a new loan unless it can show and document extenuating circumstances.</p>

7. Energy Efficient Homes

Introduction This topic contains information on energy efficient homes (EEH), including

- EEH qualifying ratios
- EEH eligible properties
- EEH general underwriting policy
- EEH general underwriting procedures
- EEH underwriting procedures for new construction mortgages, and
- EEH policy guidance for streamline refinances.

Change Date March 24, 2011

**4155.1 6.A.7.a
EEH
Qualifying
Ratios** When the borrower is purchasing or refinancing an energy efficient home (EEH), the two benchmark qualifying ratios may be exceeded by up to two percentage points. The higher housing expense-to-income ratio (33%) and obligations-to-income ratio (45%) are justified by the anticipated energy costs savings.

Reference: For more information on borrower qualifying ratios, see HUD 4155.1 4.F.

**4155.1 6.A.7.b
Eligible EEH
Properties** All properties meeting the 2000 International Energy Conservation Code (IECC), formerly known as the Model Energy code (MEC) are considered

- energy efficient, and
- eligible for the two percentage point increase in the [EEH](#) qualifying ratios.

Note: Both new and existing one to four unit properties are eligible, including condominiums units and manufactured housing.

Continued on next page

7. Energy Efficient Homes, Continued

4155.1 6.A.7.c EEH General Underwriting Policies

An [EEH](#) mortgage is initially underwritten as if the energy package did not exist; that is, by using standard FHA underwriting guidelines, qualifying ratios, and maximum mortgage/minimum downpayment requirements, without regard to the energy package.

The borrower can obtain “stretch ratios” of 33% and 45%, in addition to the cost of the improvements, for an EEH mortgage on

- new construction, or
 - homes that
 - were built to the 2000 [IECC](#), or
 - are being retrofitted to that standard.
-

4155.1 6.A.7.d EEH General Underwriting Procedures

Once it is determined that both the borrower and the property qualify for an FHA-insured mortgage, the lender must determine the dollar amount of the cost-effective energy package that may be added to the loan amount, using the energy rating report and EEM Worksheet.

This dollar amount cannot exceed 5% of the property’s value (not to exceed \$8,000), or \$4,000, whichever is *greater*. Regardless of the property’s value, every borrower who otherwise qualifies can finance at least \$4,000 of the costs of the Energy Package, if the cost exceeds \$4,000.

The calculated amount must be added to the approved base loan amount to total the final FHA-insured loan amount, before adding any upfront mortgage insurance premium (UFMIP).

The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements.

4155.1 6.A.7.e EEH Underwriting Procedures for New Construction

When qualifying the borrower, the cost of the energy package must be subtracted from the sales price, since the builder has included the improvements in the sales price.

The underwriter must calculate the qualifying ratios on the lower amount.

Continued on next page

7. Energy Efficient Homes, Continued

**4155.1 6.A.7.f
EEH Policy
Guidance for
Streamline
Refinances**

For a streamline refinance, the borrower's principal and interest (P&I) payment on the new loan, including the energy package, may be greater than the P&I payment on the current loan, provided that the estimated monthly energy savings shown on the Home Energy Rating Systems (HERS) report exceeds the increase in the P&I.

8. Restrictions on Advanced Mortgage Payments

Change Date March 24, 2011

**4155.1 6.A.8.a
Advance
Mortgage
Payment
Prohibition**

FHA does not permit a lender to collect advance payment(s) on the loan from the borrower as a condition for making a FHA-insured mortgage.

The lender is *not* permitted to require a borrower to make payments to the lender in advance of the borrower's payment requirements under the security instruments, either through the use of

- post-dated checks
- cash, or
- any other form of payment.

9. Condominium HOA Fee Utility Expense Component

Change Date March 24, 2011

**4155.1 6.A.9.a
Condominium
Utility
Expenses** The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the Homeowners' Association (HOA) dues before computing qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

10. HUD Real Estate Owned (REO) Acquisitions

Introduction	<p>This topic includes information on HUD Real Estate Owned (REO) properties, including</p> <ul style="list-style-type: none">• maximum financing on HUD REO properties with required repairs, and• a reference for information on HUD REO appraisal requirements.
Change Date	March 24, 2011
4155.1 6.A.10.a Maximum Financing on HUD REO Properties With Required Repairs	<p>On a HUD Real Estate Owned (REO) property that requires no more than \$5,000 for repairs to meet FHA's property requirements, 110% of the estimated cost of the repairs may be included in the mortgage amount.</p> <p><i>Reference:</i> For more information on adding required repair costs on HUD REO properties, see ML 2000-27.</p>
4155.1 6.A.10.b HUD REO Appraisal Requirements (Reference)	<p>For information on HUD REO properties and the</p> <ul style="list-style-type: none">• appraisal validity period and second appraisals, see HUD 4155.2 4.4.d, and• requirements for reporting lead-based paint, see ML 10-17.
