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Three New FHA Notices for Lenders

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1. FHA Case Number Cancellation Instructions for Lenders:

Purpose: To allow case number cancellations for FHA loans that qualify for the reduced Mortgage Insurance Premium (MIP) structure described in Mortgagee Letter (ML) 2012-04.

Affected Product: Streamline Refinance Transactions which have not yet closed

Effective Date: Lenders may submit case number cancellation requests immediately. Although FHA Homeownership Center (HOC) staff may begin immediately to cancel case numbers, no new case numbers will be issued until June 11, 2012.

FHA Connection (FHAC) will check cancellation requests for the following criteria:

- The case number to be canceled is for a streamline refinance.
- The case number to be canceled is for a mortgage that has not yet closed.
- The existing mortgage was endorsed on or before May 31, 2009.

Reminders:

- FHAC does not perform a net tangible benefit test (See ML 2011-11 at: <http://portal.hud.gov/hudportal/documents/huddoc?id=11-11ml.pdf> and HUD Handbook 4155.1.6.C, at: http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_6_secC.pdf). It is the lender's responsibility to ensure that the new mortgage meets the net tangible test.
- A streamline refinance which reduces the term is acceptable if the new mortgage meets the net tangible benefit test.

Important Dates:

- May 31, 2009: Latest endorsement date of existing FHA-insured mortgages being refinanced which qualify for case number cancellation if meeting all other criteria for cancellation.
- April 9, 2012: Availability of Endorsement Date on the Refinance Authorization Query Screen in FHAC. The Refinance Authorization Screen can be found on the Case Processing Screen.
- June 11, 2012: Lenders may request new case numbers for FHA to FHA streamline refinance loans that are eligible for the lower MIP structure described in ML 2012-04. New case numbers issued prior to June 11, 2012 are not eligible for the lower MIP structure.

Special Instructions for Streamline Refinance with Appraisals:

Non Credit Qualifying Streamline Refinance: No appraisal is required. However, if the appraisal already exists:

- and expires before the loan closes, the lender may process the streamline refinance without an appraisal, using FHA guidelines; or
- if the appraisal will be valid when the loan closes, lenders must click the appropriate check box on the Appraisal Logging Screen in FHA Connection which certifies that the date of the appraisal precedes the FHA case number assignment date because the previous FHA case number was cancelled.

Credit Qualifying Streamline Refinance:

If the appraisal will expire before the loans closes, the lender must obtain a new appraisal after receiving a new case number. Lenders may charge the cost of the new appraisal to the borrower. The cost of the appraisal may not be financed into the new mortgage.

Lender Submission of Requests for Case Number Cancellations: Lenders will send all case number cancellation requests to the appropriate FHA Homeownership Center's email box:

- Atlanta: ATLInsurance&Underwriting@hud.gov
- Denver: denhocinsure@hud.gov
- Philadelphia: PHOCInsure@hud.gov
- Santa Ana: snahocinsure@hud.gov

Lenders may send individual requests for each case number cancellation with the following information.

- In the Subject line of the email - Case number and Type of request (case number cancellation – Reduce MIP per ML 2012-04)
- In the text of the email –
 - o Lender's name, phone number, email and contact person
 - o Information on type of loan – credit qualifying with appraisal or non-credit qualifying with an appraisal. If an appraisal exists, the lender must include information on whether the appraisal will expire before the loan closes.

Visit FHA Connection online at: <https://entp.hud.gov/clas/index.cfm>

AND

2. Clarification on disputed and collections accounts in FHA Mortgagee Letter 2012-03:

The Q & A below provides clarification on disputed and collections accounts in FHA Mortgagee Letter 2012-03. If you have any questions on this issue, please contact Theresa Herrity at: Theresa.M.Herrity@hud.gov

Question: Must all collections accounts and disputed accounts be resolved (e.g. entered into payment arrangements with minimum three months verified payments) or paid off in full at the time of, or prior to closing?

Answer: Mortgagee Letter 2012-03 provides examples of acceptable documentation to support a resolution of collections accounts and disputed accounts or the payoff of accounts. The examples provided are not finite. The borrower's written explanation as described in section 4155.1 4.C.1.c of the handbook, regarding disputes with creditors or collections accounts resulting from life events such as medical, death, divorce, loss of employment, etc., is another example in support of a resolution to an aggregate amount of disputed or collections accounts over \$1,000. The borrower may provide a written explanation and documentation as it applies to all types of disputed and collections accounts if it makes sense, and is consistent with other credit information in the file.

AND

3. Revised FHA TOTAL Mortgage Scorecard User Guide:

A revised version of the FHA TOTAL Mortgage Scorecard User Guide has been released. The following polices were updated to reflect current FHA guidance per Mortgagee Letter 2012-03:

Disputed Accounts/Collections and Public Records:

If the credit report reveals that the borrower is disputing any credit accounts or public records, it is not required for the mortgage application to be referred to a DE underwriter for review as long as these accounts meet both of the following conditions:

- The total outstanding balance of all disputed credit accounts or collections are less than \$1,000, and
- Disputed credit accounts or collections are aged two years from the last date of activity as indicated on the most recent credit report.

If the borrower has individual or multiple disputed credit accounts or collections with singular or cumulative balance equal to or greater than \$1,000, the mortgage application must be downgraded to a "refer" and forwarded to a DE underwriter for manual underwriting consideration.

Disputed credit accounts or collections resulting from identity theft, credit card theft, or unauthorized use, etc. will be excluded from the \$1,000 limit. The lender must provide in the case binder, a credit report, or letter from the creditor, or other appropriate documentation, to support that the borrower filed an identity theft or police report to dispute the fraudulent charges.

Profit and Loss (P&L) Statements and Balance Sheets:

- These documents are required on mortgages rated "accept" or "approve" by TOTAL if more than a calendar quarter has elapsed since the date of the most recent calendar or the borrower with no exceptions filed fiscal-year end tax return.
- Additionally, if income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.

The FHA TOTAL Mortgage Scorecard User Guide may be accessed using the following link:

http://portal.hud.gov/hudportal/documents/huddoc?id=total_userguide.pdf

You can view all FHA Mortgagee Letters on-line at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee

For FHA technical support on these or any other FHA issues, please contact the FHA Resource Center at:

www.hud.gov/answers Search our online knowledge base & find answers to our most commonly asked questions. You can also get email technical support at: answers@hud.gov or phone FHA toll-free between 8:00 a.m. & 8:00 p.m. ET (5:00 a.m. to 5:00 p.m. PT) at: (800) CALLFHA or (800) 225-5342. Call FHA TDD at: (877) TDD-2HUD (877) 833-2483).