U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 14, 2009

TI-481

TO: ALL TITLE I LENDING INSTITUTIONS
Attention: Installment Loan Department

SUBJECT: Changes to the Title I Manufactured Home Loan Program

The FHA Manufactured Housing Loan Modernization Act of 2008, §§2141-2150 of the Housing and Economic Recovery Act of 2008, (the Act), amended various provisions in Title I of the National Housing Act relating to the Manufactured Home Loan program. These changes are discussed below. Specific details relating to all aspects of origination, underwriting, insuring, servicing and claims procedures and guidelines are contained in the appendices to this letter.

## KEY CHANGES UNDER THE ACT

- Loan Limits Increased
- Annual Indexing to Allow for Future Increases
- Coinsurance on an Individual Loan Basis
- Incontestability of Insurance
- Upfront Insurance Premium
- Annual Insurance Premium
- Underwriting Criteria Revised
- Three (3) year Leasehold Agreement Required

## Increased Loan Limits and Indexing for Future Adjustments

Section 2145 of the Act increased maximum loan limits as shown below. In addition, the act requires the Secretary to develop a method of indexing so as to be able to annually adjust the maximum loan limits. The higher loan limits only were implemented effective March 3, 2009 as per Title I Letter TI-480.

04/09/09

| LOAN TYPE | PURPOSE | OLD LOAN LIMIT | NEW LOAN LIMIT |
|---|---|---|---|
| MANUFACTURED HOME UNIT (S) | To purchase or refinance a manufactured home unit (s) | $48,600 | **$69,678** |
| LOT LOAN | To purchase and develop a lot on which to place a manufactured home unit | $16,200 | **$23,226** |
| COMBINATION LOAN FOR LOT AND HOME | To purchase or refinance a manufactured home and lot on which to place the home | $64,800 | **$92,904** |

## Individual Loan Insurance

Section 2143 of the Act substantially revised the Manufactured Home Loan program by changing the insurance for manufactured home loans from portfolio insurance to insurance on each individual loan.

- FHA will coinsure individual loans under the new program.
- FHA will pay 90 percent of the loss on a valid claim.
  (See Appendix 9-7 for information on calculating the deficiency claim)
- The Lender will absorb 10 percent of the deficiency balance on a valid claim.

This change is applicable to all Title I manufactured home loan products for which loan applications are dated on or after June 1, 2009. Loans that have already been registered for insurance or for which loan applications are dated prior to June 1, 2009, will continue to be registered in the portfolio loan insurance program.

## Incontestability of Insurance

Section 2144 of the Act provides that the insurance on each individually Title I insured manufactured home loan shall be incontestable, except for fraud or misrepresentation by the lender. This eliminates the two-year period before the insurance becomes incontestable. The two year contestability period remains in effort for loans that are included in the insured portfolios.

04/09/09

**Premium Changes for Manufactured Home Loans**

Section 2146 of the Act changed the method of calculating the insurance premium charge, referred to in the Modernization Act as the insurance premium, for Title I manufactured home loan products. The Act provides for both an upfront insurance premium and an annual premium to be paid during the term of the loan. The upfront insurance premium shall not exceed 2.25 percent while the annual premium payments during the term of the loan shall not exceed 1.0 percent of the remaining insured principal obligation.

The upfront insurance premium is an obligation of the lender, but may be passed on to the borrower. The upfront insurance charge is eligible to be financed only to the extent that it and other eligible charges do not exceed the maximum loan amount set forth elsewhere in this Letter. If all or part of the upfront premium exceeds the maximum loan amount, the borrower must pay that amount in cash.

Most manufactured home loans are evidenced by advances of credit, *i.e.*, retail sales installment contracts, in which the borrower(s) agrees to pay the dealer over a period of time. To insure an advance of credit as a Title I loan, an FHA-approved lender purchases the advance of credit. Because the dealer is not eligible to insure such a loan, Title I insurance charges cannot be included in the retail sales installment contract. Therefore, to pass the obligation to pay upfront and annual insurance premiums to the borrower, the lender must obtain a signed agreement from the borrower in which the borrower agrees to:

- An increase in the principal amount of the loan from what is shown on the retail sales installment contract to an amount that includes both the principal amount on the retail sales installment contract and the amount of the financeable upfront insurance charge;

- To pay the lender for any portion of the upfront insurance charge that cannot be financed;

- To pay the lender for the monthly insurance charge (1/12$^{th}$ of annual premium) in addition to the monthly loan payment set for in the retail sales installment contract.

Lenders are free to adopt any method that does not violate applicable law, but FHA suggests that the agreement be effectuated by a rider to the retail installment sales contract that is executed by the borrower at the same time that the retail installment sales contract is executed.
Appendix 13 suggests the appropriate wording for the Rider, authorizing the lender to collect the upfront insurance premium from the borrower and indicating the amount of the charge to be financed into the loan.

The initial upfront insurance premium charge, effective for Title I manufactured home loan products for which applications are received on or after June 1, 2009, is 2.25 percent and the annual insurance charge is 1.0 percent.

## Underwriting Criteria

Section 2148 of the Act requires FHA to establish such underwriting criteria for loans and advances of credit in connection with Title I manufactured home loan products as may be necessary to ensure that the manufactured home loan program is financially sound. While all sections of the appendices to this letter address Title I manufactured home loan policy and guidance, Appendix 4 specifically addresses the underwriting criteria for the Title I manufactured home loan products.

## Leasehold Requirements for Manufactured Homes

Section 2150 requires that if a manufactured home loan is for the purpose of financing a manufactured home unit to be situated in a manufactured home community pursuant to a lease, the lease must:

- not expire before three (3) years after the origination date of the obligation;
- be renewable upon the expiration of the original 3-year term by successive one (1) year terms;
- requires the lessor to provide the lessee written notice of termination of the lease not less than 180 days prior to the expiration of the current lease term in the event the lessee is required to move due to the closing the manufactured home community, and further provides that failure to provide such notice to the borrower in a timely manner will cause the lease term, at its expiration, to automatically renew for an additional one (1) year term.

## Title I Manufactured Home Loan Handbook

FHA is in the process of developing a handbook that will be more comprehensive with regard to Title I manufactured home loan products. FHA expects to issue the handbook in the near future.

If you have questions regarding this Title 1 letter, please contact the FHA Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

Attachments

# APPENDIX 1
# INTRODUCTION

## 1-1 OVERVIEW

The purpose of the FHA Title I Manufactured Home Loan Program is to provide affordable manufactured housing options to low and moderate income homebuyers.

The Department of Housing and Urban Development (HUD) insures FHA Title I loans made by approved private sector lenders for the purchase or refinance of manufactured homes. HUD does not provide loan funds to participating lenders nor does it make loans to individuals for the purchase or refinance of a manufactured home and/or lot.

Although the enclosed guidance applies to all manufactured home loan products, the requirements that are unique to combination loans and lot loans are presented in Appendix 10.

### Loan Types:

- **Manufactured Home Loan** – purchase or refinance of a manufactured home unit.
- **Manufactured Home Lot Loan** – purchase of a parcel of real estate to be used as the site for placement of a manufactured home unit.
- **Manufactured Home Loan and Lot Combination Loan** – purchase or refinance of a manufactured home unit and a parcel of real estate to be used as the site for the placement of a manufactured home unit.

### KEY FEATURES OF THE PROGRAM

- **Co-insurance on Individually Insured Loan**
- **Lender Underwriting and Approval of Loans**
- **Insurance Premiums**
- **Incontestable Loan Insurance**
- **Claim Based on Post-Repossession Deficiency**
- **Lender Direct Endorsement**
- **Fixed Interest Rate**
- **Qualifying Ratios**
- **Assumptions**

The following is an overview of the key features of the FHA Title I Manufactured Home Loan Program:

A. **Coinsurance.** Loans are individually insured by HUD. HUD will pay 90% of a claim with the lender absorbing the remaining 10%. See Appendix 9 for more information.

**B.** **<u>Lender Underwriting and Approval of Loans</u>.** The lender is responsible for determining the borrower's eligibility and underwriting the loan in accordance with underwriting guidelines.

**C.** **<u>Insurance Premiums</u>.** HUD collects premium charges for eligible loans originated under the FHA Title I Manufactured Home Loan Program. The premium charges for the Manufactured Home Loan Program consist of an upfront insurance premium and an annual premium. The upfront insurance premium may be financed into the loan, in all or in part, provided that the final loan amount not exceed the maximum loan amount. Lenders may require borrower(s) to execute the Rider for Upfront Insurance Premium on all loans originated by dealers. The wording for this form can be found in Appendix 13.

**D.** **<u>Incontestable Loan Insurance</u>.** Properly prepared claims are incontestable, as long as a valid, legally enforceable note is assigned to the Department and except in the case of fraud or misrepresentation on the part of the lender.

**E.** **<u>Claims Based on Post-repossession Deficiency Balance</u>.** The lender must repossess and sell the manufactured home and preserve the right to collect any deficiency balance. The claim payment is based on the deficiency balance. See Appendix 9 for additional information.

**F.** **<u>Lender Direct Endorsement</u>.** Lenders must initially submit all new manufactured home loans to HUD for a pre-closing review. To obtain unconditional authority to close loans without HUD's pre-closing review, a lender will need to submit 10 loans for review and approval to close. Once unconditional authority is granted, HUD will continue to monitor lender processing with in-depth post endorsement technical reviews conducted on a sample of the lender's loans. See Appendix 6 for more information.

**G.** **<u>Fixed Interest Rate</u>.** The loan must have a fixed interest rate for the full term of the loan. Adjustable rate mortgage (ARM) products are not eligible for this program. HUD does not set the interest rate. The interest rate is negotiated and agreed to between the borrower and lender.

**H.** **<u>Qualifying Ratios</u>.** Qualifying ratio's are calculated and used to determine eligibility during the underwriting process.

**I.** **<u>Assumptions</u>.** A lender may approve a loan assumption with or without a release of liability of the original borrower(s).

## 1-2 LENDER APPROVAL AND CONTRACT OF INSURANCE

A. **Lender Approval.** A lender must obtain written approval from HUD to participate in the FHA Title I program. Lenders who have been approved to participate in the FHA Title II insured mortgage loan program are not automatically approved for Title I. Information on how to apply to become an FHA Title I lender is available in HUD Handbook 4700.2, Title I Lender Approval Handbook, and on-line, at http://www.hud.gov/offices/hsg/sfh/lender/lendappr.cfm.

B. **Contract of Insurance.** Once a lender has been approved by HUD for the Title I program, HUD issues a Contract of Insurance letter which constitutes an agreement between HUD and the lender. The contract number assigned to the lender by HUD is used to identify the contract holding lender in all future insurance transactions.

   The lender's responsibility under the Contract of Insurance will remain in force for all loans originated under the contract for the entire term of the loans. Should the lender's approval be terminated, the lender may no longer originate new loans, but will remain responsible to perform all Title I duties for loans originated and held in accordance with the lender's Contract of Insurance with HUD. This includes servicing and paying premium charges when due. Claims may be filed for loans that were originated and insured while the lender was in an approved Title I status.

   Loan Correspondents are not issued a Contract of Insurance. Loan Correspondents, once approved, are only authorized to originate loans, for sale or transfer, to a sponsoring lender which holds a valid FHA Title I Contract of Insurance.

## 1-3 PREMIUM CHARGES

HUD collects premium charges for loans originated under the FHA Title I Manufactured Home Loan Program. The premium charges for the Manufactured Home Loan Program consist of an upfront insurance premium of 2.25 percent of the amount of the insured principal loan amount and an annual premium of 1.0 percent, based upon the projected amortized principal balance of the loan. The upfront insurance premium, in all or in part, may be financed into the loan, provided that the final loan amount does not exceed the maximum loan limit.

# APPENDIX 2
# GENERAL PROGRAM REQUIREMENTS

## 2-1 ELIGIBILITY REQUIREMENTS

A. **Borrower Eligibility.** The following minimum requirements must be met by the borrower in order to purchase a manufactured home with a Title I loan:

- Must own and occupy the manufactured home as a principal residence.
- Must have a valid social security number.
- Have obtained minimum age, which is the age at which the Title I loan can be legally enforced, in the state or jurisdiction in which the property is located. There is no maximum age limit.
- Must meet all underwriting criteria specific to the loan type applied for.

B. **Ineligible Participants.** A borrower is not eligible for an FHA Title I loan if his/her name appears on the government checklists shown below.

- HUD Limited Denial of Participation (LDP) list, which can be accessed through the FHA Connection at www.hud.gov and/or the General Services Administration (GSA) *"List of Parties Excluded from Federal Procurement or Non-procurement Programs,* at www.epls.gov, which will indicate if a borrower is suspended, debarred, or otherwise excluded from participation in HUD programs.

- The Government CAIVRS system, which can be accessed through FHA Connection, at www.hud.gov , will indicate if a borrower is presently delinquent on any Federal debt or has had a lien placed against his/her property for a debt owed to the United States Government. A borrower would be excluded from participation in HUD programs until the matter is satisfied.

C. **Borrower Residency Status**. Citizenship is not required for eligibility. However, the borrower(s) must have permanent resident status.

- For persons with lawful permanent resident alien status, the lender must document the file with evidence of permanent residency. Evidence of lawful permanent residency is issued by the Citizenship and Immigration Services (USCIS) within the Department of Homeland Security.

- For Non-Permanent Resident Aliens, the borrower must have a valid SSN and be eligible to work in the U.S. as evidenced by an Employment Authorization Document (EAD) issued by The Citizenship and Immigration Services (USCIS). If the authorization for temporary residency status will expire within one year and a prior history of residency status renewal exist, the lender may assume continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal, based on information from the USCIS. If the Non-Permanent

Resident Alien's Social Security card indicates that it is "not valid for work purposes", the lender must obtain an employment authorization document from the USCIS.

**D.** **Eligible Homes.** The loan proceeds must be used for the purchase or refinance of a manufactured home as described below:

- **Manufactured Home Definition:** A manufactured home is a transportable structure, comprised of one or more modules, each built on a permanent chassis, which is designed to be used as a principal residence for a single family.
- **HUD Seal:** The manufactured home must comply with standards for livability and durability as specified in the National Manufactured Housing Construction and Safety Standards Act of 1974 (42 U.S.C. 5401-5426) at 24 CFR Part 3280. All manufactured homes built since June 15, 1976, must comply with these standards. Manufacturers certify that a manufactured home complies with these standards by affixing a label, also known as the "HUD Seal", to each home. If the home is a multi-module unit, each module must have a label.
- **New Verses Existing Home Definition:** A new home is defined as a home purchased by a borrower within 18 months after the date of manufacture that has not been previously occupied. A home purchased later than 18 months after the date of manufacture, is considered to be an existing home and must be appraised to determine the maximum loan amount.
- **Manufacturer's Warranty:** On new home purchases, the home manufacturer must furnish the borrower with a one year written warranty. An authorized representative of the manufacturer must execute the warranty on HUD form 55014. The warranty is to be effective as of the actual date that the borrower takes possession of the home. The warranty is to be provided at no cost to the borrower and the lender must retain a copy of the warranty in the borrower's file.

**E.** **Eligibility of Options and Accessories** A loan for a new manufactured home may include options and accessories that are itemized on the manufacturer's invoice and/or other options and accessories that are offered for sale by the dealer.

**Eligible Options and Accessories**

- Dealer's actual cost for skirting.
- Dealer's actual cost for a garage, carport, patio or other comparable appurtenance to the home.

- Dealer's actual cost of purchasing and installing a central air conditioning system or heat pump (if not already installed by the manufacturer).

**Ineligible Options and Accessories**

- Furniture and other articles of personal property (lamps, rugs, draperies, etc.).
- Purchase of wheels and axles.

## 2-2 MAXIMUM LOAN AMOUNTS AND TERMS

**A. Maximum Loan Limits.** The final loan amount may not exceed the loan limit set by HUD, which includes any portion of the upfront insurance premium that is to be financed. HUD publishes the loan limits for FHA Title I loans on its website, www.hud.gov. The maximum loan limits may be adjusted annually following HUD's annual review of manufactured home price data collected by the Census Bureau.

**B. Maximum Loan Amounts.**

- **Minimum Cash Investment.** The borrower is required to make a cash investment, in the form of a down payment, of at least 5 percent of the total purchase price, for a maximum LTV of 95 percent. Borrowers with a credit score of 500 or below will be required to make a cash investment of 10 percent of the total purchase price, for a maximum LTV of 90 percent. Borrowers with no credit score, that require nontraditional underwriting, if found to be credit worthy, will be required to make a cash investment, in the form of a down payment, of at least 5 percent of the total purchase price. **Lenders must pull a credit report if credit does exist. Lenders are prohibited from developing nontraditional credit reports to supplement or use in place of a traditional credit report.**

| Credit Score | Minimum Down Payment | Maximum LTV |
|---|---|---|
| Above 500 | 5% | 95% |
| 500 or Below | 10% | 90% |

- **New Manufactured Homes.** The loan amount and LTV as specified above, shall not exceed the sum of the following amounts:

    - 130 percent of the sum of the wholesale (base) price of the home plus any eligible itemized options, including the charge for freight, all as detailed on the manufacturer's invoice.

- Sales tax to be paid by the borrower, as detailed in the retail sales installment contract.

- Dealer's actual cost of transportation to the home site, set-up and anchoring, including the rental of wheels and axles (if not included in the freight charges.)

- Dealers actual cost for skirting, garage, carport, patio, or other appurtenance, and for purchase and installation of a central air conditioning system or heat pump (if not installed by the manufacturer).

- Authorized fees and charges.

- **Existing Manufactured Homes.** The maximum loan amount must be the lesser of the following calculations based on the down payment LTV chart* above:

  - 90* or 95* percent of the appraised value of the home as equipped and furnished, plus 90* or 95* percent of any amounts allowed for transportation, accessories, other allowable fees and charges. The upfront insurance premium may be added to this base loan amount not to exceed the maximum loan limit.

  - 90* or 95* percent of the purchase price of the home. The purchase price includes the retail cost to the borrower of all items set forth in the purchase contract, including any applicable authorized fees and charges. The upfront insurance premium may be added to this base loan amount not to exceed the maximum loan limit.

- **Exceeding the Maximum Loan Limit.** HUD will not insure a loan if the loan amount has exceeded the maximum loan limits published by HUD.

**C. Loan Term**. The term for FHA Title I loans is as follows:

- Manufactured Home Loan: Not less than 6 months and shall not exceed 20 years, plus 32 days.
- Lot Loan: Shall not exceed 15 years, plus 32 days.
- Single Unit Manufactured Home and Lot Loan: Shall not exceed 20 years, plus 32 days.

- Multi Unit Manufactured Home and Lot Loan: Shall not exceed 25 years, plus 32 days.

## 2-3 INTEREST AND DISCOUNT POINTS

- **Interest Rate.** The interest rate is negotiated between the lender and the borrower. The interest rate must be fixed for the full term of the loan and must be stated in the note or retail sales installment contract. Interest on the loan shall accrue from the date of the loan, and be calculated on a simple interest basis. Adjustable rate mortgage (ARM) products are not permitted for FHA Title I manufactured housing loans.

- **Discount Points.** A lender and borrower may negotiate the amount of discount points, if any, to be paid by the borrower. However, the collection of discount points may not be financed and is not permitted unless the lender documents that the discount point(s) resulted in a decrease to the interest rate.

- **Payment of Discount Points by Others.** A lender may not allow the manufactured home dealer, or any party, other than the borrower, to pay any discount points or other financing charges in connection with the loan transaction.

## 2-4 FEES AND CHARGES

A. **Fees and Charges That May be Financed.** The fees and charges listed below incurred in connection with a manufactured home loan may be included in the loan amount. Their inclusion must not increase the total principal loan balance beyond the maximum loan limit permitted.

The dealer may advance the funds for the fees and charges and be reimbursed by the lender from the loan proceeds. Alternatively, a lender may pay these fees and charges and deduct them from the loan proceeds paid to the dealer. In either case, there must be full disclosure to the borrower.

- Upfront insurance premium.
- Origination fees, not to exceed 2 percent of the base loan amount, before adding upfront insurance premium.
- State and local sales taxes.
- Premiums paid for hazard insurance for the first year of the loan term, including premiums for flood insurance where applicable.

- Credit report costs.
- Appraisal fees in connection with the purchase or refinancing of an existing manufactured home.
- Fees for determining whether the property is in a special flood hazard area.
- Recording fees, recording taxes, filing fees, and documentary stamp taxes.
- A fee for inspection of the property by the lender or its agent, not to exceed a maximum set by HUD. HUD publishes the maximum fee on its website, www.hud.gov.
- Such other items as may be specified by HUD.

**B.** **Allowable Fees and Charges That May Not be Financed.** The following fees and charges, incurred by a lender in connection with a manufactured home loan, may be collected from a borrower, but may not be included in the loan amount or otherwise financed or advanced by a dealer, a manufacturer, or any other party to the loan transaction:

- Discount points to be paid by the borrower to the lender.
- Fee for the services of a qualified closing agent to act on behalf of the lender in closing a direct loan transaction.
- Premiums for credit life insurance or credit disability insurance.
- Payments into an insurance escrow account.
- Other fees necessary to establish the validity of a lien.
- Such other items as may be specified by HUD.

**C.** **Referral Fees are not Allowed.** Referral fees or similar charges are not allowed to be paid or collected by any party involved in the transaction, to include the manufacturer, dealer, contractor, supplier, real estate broker, loan broker or any other party involved in the transaction.

## 2-5 REQUIREMENTS FOR THE NOTE

**A.** **General.** The note must state the principal amount of the loan and the annual rate of interest. The note must bear the signature of each borrower and of any co-maker or co-signer and be valid and enforceable against the borrower and any co-maker or co-signer. The borrower and any co-maker or co-signer must execute the note for the full amount of the loan obligation.

Although the borrower(s) may sign the note on an earlier date, the date of the loan must be the date that the loan proceeds are disbursed by the lender. Such date should be entered on the note when disbursement occurs.

HUD does not provide note forms or prescribe a particular note format. A lender must assure that the note and all other documents evidencing the loan transaction are in compliance with applicable Federal, State and local laws.

**B. Payments on the Loan.** The note shall provide for equal installment payments that are due monthly. The first scheduled loan payment must be due no later than two months from the date of the loan.

**C. Default Provision.** The note must contain a provision for acceleration of maturity, at the option of the holder, upon a monetary default by the borrower.

**D. Late Charges.** The note may provide for a late charge unless specifically precluded by State law. The late charge may be imposed only for a payment which is in arrears for the greater of 15 calendar days or the number of days required by applicable State law. Late charges must be billed to the borrower or reflected in the payment coupon. Evidence of late charges paid by the borrower must be in the loan file if an insurance claim is made.

- **Amount of Late Charge.** The late charge must not exceed the lesser of 4 percent for each installment of principal and interest, or the maximum amount permitted by applicable State law.

- **Method of Payment.** Payment of any late charge cannot be deducted from the monthly payment of principal and interest. Late payment fees must be calculated and shown as an additional charge to the borrower.

- **Daily Interest in Lieu of Late Charges.** In lieu of late charges, the note may provide for interest to accrue on installments in arrears, continuing daily, based on the interest rate in the note.

**E. Prepayment Provision.** Borrowers cannot be charged a prepayment penalty on any FHA Title I Manufactured Home Loan product.

## 2-6 SECURITY REQUIREMENTS

**A. General.** The loan must be secured by a recorded lien on the manufactured home, including its equipment, accessories, and appurtenances. The lien must be in first position and must be evidenced by a properly recorded financing statement, a properly signed and recorded security instrument, or other acceptable instrument issued by the State that confirms the lender's lien interest in the manufactured home.

**B. Recording and Perfection of Security.** A lender must assure that the description of the manufactured home as cited in the security instrument is accurate and that the security instrument creates a valid and enforceable lien on the manufactured home in the jurisdiction in which the property is located. The security instrument must be recorded and perfected in the manner specified by applicable State law in the State where the property is located.

Title I insurance benefits for a manufactured home loan are based on the deficiency balance after liquidation of the security for the loan. Therefore, a lender must be able to legally repossess or foreclose it's lien on the manufactured home, gain possession of the home and sell the home prior to submitting a claim. The note, which must be valid and enforceable against the debtor, must be assigned to HUD.

While HUD does not normally require a lender to obtain a deficiency judgment in court, a lender must take all actions necessary under State and local laws to preserve its rights, if any, to obtain a valid and enforceable deficiency judgment against the borrowers.

# APPENDIX 3
# DEALER APPROVAL AND MONITORING

## 3-1 DIRECT LOAN VS. DEALER LOAN

A manufactured home dealer is a person or firm that is engaged in the business of manufactured home retail sales. Typically, dealers make most of the sales of new manufactured homes, while existing manufactured homes are sold through private party sales, as well as by dealers. To facilitate the sale of manufactured homes, it is common for a dealer to enter into a business relationship with a financial institution that will provide financing to the home purchaser.
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- **Direct Loan.** The borrower applies directly to the lender for the manufactured home loan. There is no participation by the dealer with the loan application or loan process. The proceeds are disbursed to the borrower or jointly to the borrower and home seller.

- **Dealer Loan.** The dealer, having a direct or indirect financial interest in the transaction, assists the borrower in obtaining a manufactured home loan from a lender. This includes completing the credit application and collecting any other documentation or information required by the lender in order to obtain loan approval. The lender will disburse the loan proceeds directly to the dealer.

## 3-2 LENDERS APPROVE DEALERS

The lender is responsible for approving dealers to participate in the FHA Title 1 Manufactured Home Loan Program. The lender must complete an investigation of a dealer and document the findings for approval before the dealer may begin originating Title I loans through the lender.

## 3-3 DEALER APPROVAL CRITERIA

- **General.** A dealer must demonstrate previous business experience in manufactured home retail sales. A lender shall evaluate the dealer on the basis of experience, and approve only those dealers that the lender considers to be reliable, financially responsible, and qualified to satisfactorily perform their contractual obligations.

- **Net Worth Requirement.** A manufactured home dealer must have and maintain a net worth of not less than $63,000 in assets acceptable to HUD. (Note: See Appendix 1 to Handbook 4700.1, Title I Lender Approval Handbook for information about unacceptable assets for computation of net worth.)

- **Resale Agreements.** As a condition of approval, a lender may require a manufactured home dealer to execute a written resale agreement. If a loan originated by the dealer results in the repossession of the home, the agreement would require the dealer to assist the lender in reselling the home, if requested by the lender.

**3-4 DEALER APPROVAL PROCEDURE.** Lenders must follow the procedures listed below.

- **Application Form.** A prospective dealer must complete a Dealer/Contractor Application, form HUD-55013.

- **Financial Statement.** The lender must review the dealer's financial statement(s) to confirm that the dealer meets HUD's net worth requirement. The dealer must furnish the lender with the most recent annual financial statement. The financial statement must have been prepared by a Certified Public Accountant or a licensed public accountant. If the annual financial statement provided at application is more than six months old, the lender must also obtain and review a current profit and loss statement and balance sheet to verify that the dealer's current net worth is sufficient.

- **Determining Eligibility for Participation in HUD Programs.** A dealer who has been suspended, debarred or otherwise excluded from federal government programs is not eligible to participate in a Title I loan transaction. The lender must check the following web-sites to confirm that the dealer and the principal owners of the dealership are not excluded from participation in federal government programs and document the results of this review.

    - HUD Limited Denial of Participation (LDP) list at www.hud.gov

    - General Services Administration (GSA) "*List of Parties Excluded from Federal Procurement or Non-procurement Programs* at http://epls.arnet.gov

    - The Government CAIVRS system, which can be accessed through the FHA Connection, at www.hud.gov will indicate if a dealer is presently delinquent on any Federal debt or has had a lien placed against his/her property for a debt owed to the United States Government. A dealer would be excluded from participation in HUD programs until the matter is satisfied.

- **Credit Report.** A lender must obtain and evaluate a commercial credit report on the dealership. The lender must also obtain and evaluate an individual credit report on the principal owner(s) of the dealership to ensure that the owner (s) does not exhibit a disregard for credit.

- **Documentation of Approval.** Upon completion of the lender's thorough review and investigation of a dealer, an authorized official of the lender must sign the bottom of the Dealer/Contractor Application form to document the lender's decision to approve the dealer. The lender must retain the approved application and all supporting documentation obtained during the application review.

- **Annual Renewal.** A dealer is approved for a period of one year. To be re-approved, a dealer must provide the lender with a new application (HUD 55013) and its most recent financial statement. In addition to the steps outlined above for the initial approval, the lender must also evaluate its experience with the dealer during the prior year. This evaluation must address performance factors such as the dealer's approval and rejection rates, the collection history for loans purchased from the dealer, and the dealer's complaint resolution practices.

## 3-5 DEALER MONITORING

In addition to the initial and annual dealer approval reviews, a lender must monitor each approved dealer's activities with respect to loans insured by HUD on an ongoing basis. The lender must take prompt action to resolve any dealer deficiencies discovered. A lender's monitoring of dealers must include the following:

- **Monitor the Quality of Borrower Applicants.** The lender must monitor the quality of applicants submitted by the dealer. If a dealer's rejection rate is too high, the lender should meet with the dealer to review the dealer's marketing and borrower qualification practices.

- **Monitor Loan Documentation Quality.** The lender must monitor the quality and completeness of the loan documentation submitted by the dealer.

- **Monitor Dealer Advertising.** The lender must monitor dealer advertising and other marketing material to assure against misleading or false claims. Of particular concern is advertising that uses "Federal Housing Administration", "Department of Housing and Urban Development", "FHA", or "HUD", to convey the impression that the dealer has a special relationship with the federal government. Other prohibited marketing practices includes material that states or implies that it is an official government notice, Title I is a grant program, Title I provides special benefits for a particular area or group, government funding for the program is limited in amount or for a limited time period, that the borrowers are pre-approved, that poor credit is acceptable, that HUD approved the dealer, or that the loan funds can be used for debt consolidation. Copies of dealer advertisements and other marketing materials issued by the dealer must be maintained in the dealer's file with the other required documents.

- **Monitor Complaints.** The lender must monitor complaints received on loans originated by the dealer. Documentation for all complaints and their resolution must be maintained in the dealer's file. Particular attention should be focused on the quality of service offered, whether warranties are honored in a timely manner, and the general manner in which the dealer resolves complaints and conducts their business.

- **Prohibition of Kickbacks and Other Irregularities.** All credible allegations of irregularities (kickbacks, false statements, etc.) must be promptly reported to either HUD's Quality Assurance Division or to HUD's Office of the Inspector General located in the nearest HUD Field Office. See Appendix 12 for mailing address.

- **Notice of Material Change.** A lender must require each approved dealer to provide written notification of any material change in its trade name, places of business, type of ownership, type of business, or principal individuals who control or manage the business. The dealer must furnish such notification to the lender within 30 days after the date of any material change.

- **Maintain Dealer Files.** The lender is to maintain a separate file for each approved dealer. The file is to include the initial application and documentation used for approval and any information regarding the lender's experience with Title I loans involving the dealer. Each file must consist of information regarding borrower default rates, records of inspections of homes delivered and installed by the dealer, copies of letters concerning borrower complaints and their resolution, copies of dealer advertisements and other marketing materials, and records of the lender's visits to the dealer's premises.

## 3-6 DEALER TERMINATION

A dealer's approval will be terminated if a dealer does not satisfactorily perform its contractual obligations to borrowers, does not comply with Title I program requirements, or is unresponsive to inquiries pertaining to lender supervision and monitoring requirements. The lender is required to notify HUD immediately with written documentation of the reason(s) for termination. A dealer whose approval is terminated as a result of these circumstances may not be re-approved by a lender without prior written approval from HUD.

Notices of termination for cause and requests for permission to re-approve a terminated dealer should be in writing and sent to HUD's Quality Assurance Division. A lender may, at its discretion, terminate the approval of a dealer for other reasons at any time. See Appendix 12 for mailing address.

# APPENDIX 4
# UNDERWRITING

## 4-1 OVERVIEW

The lender is responsible for evaluating the borrower's ability and willingness to repay a loan for the purchase or refinance of a Title I Manufactured Home Loan product. The lender must exercise prudent underwriting practices when evaluating the creditworthiness of the borrower and the value of the property being offered as collateral, in order to limit the risk of default.

Once it is determined that the borrower and the property are eligible, as stated in Appendix 2, analysis of the borrower's credit must be performed for final loan approval to include review and documentation of the following:

- Down Payment and other Required Funds
- Credit History
- Employment History
- Income
- Assets
- Liabilities
- Debt Ratios
- Compensating factors

This appendix details the underwriting guidelines specific to the FHA Title I Manufactured Home Loan program as revised under the FHA Manufactured Housing Loan Modernization Act of 2008. For underwriting questions that are not specific to this Title I program and are not covered under these appendices, the lender is to refer to guidance issued by HUD for use in underwriting the FHA Title II Single Family Mortgage program.

A. **Loan Application Form.** A borrower must apply for a Title I manufactured housing loan product using form HUD-56001-MH, Credit Application for Manufactured Home. All borrowers applying for the loan must sign the loan application and any required addendums, riders or disclosures.

B. **Documentation.** The loan file must contain all documentation supporting the lender's decision to approve the loan. This includes all standard documentation as well as any additional alternative documentation, such as explanatory statements, used to clarify or supplement information received during the initial loan process. All documentation supporting the underwriting decision must be retained in the loan file.

**Lenders are prohibited from having the borrower(s) sign any blank or incomplete documents. Lenders may not accept or use written verification documents relating to credit, employment or income that have been handled by or through interested parties, to include the borrower or the dealer and/or it's agents.**

## 4-2 DOWNPAYMENT AND OTHER FUNDS REQUIRED

The lender must verify that the borrower has sufficient funds to cover the required down payment and other costs to be paid in cash at closing. These funds must be from an acceptable source, verified and documented.

**A. Down Payment.** An applicant must make a minimum cash investment as down payment as detailed in Appendix 2-2 B.

**B. Other Funds Required.** See Appendix 2-4 for details on which fees are allowed to be financed and which fees must be collected in cash from the borrower.

**C. Source of Funds.** The down payment and other funds needed to close the loan may come from the borrower's liquid assets, credit for a trade-in, gift funds, or from a secured loan.

- **Liquid Assets.** Liquid assets may include actual cash on hand as well as cash deposited in banking institutions or similar companies, such as credit unions and saving clubs. This would include checking/saving accounts, money market accounts, certificates of deposit, stocks and bonds, Thrift saving plans, IRA's, or other similar accounts.

  A lender must obtain written verification of the source of funds from the applicant. The lender may use statements issued by the company holding the funds or may obtain a verification of deposit directly from the company. If statements will be used, the lender must obtain two consecutive statements, all pages, to compare them to look for irregularities. Lenders must require credible explanations for large increases in accounts, or for newly opened accounts to verify the source of the funds and consider the explanation in the approval decision.

- **Trade-in.** Equity in a manufactured home unit that is being traded in for the purchase of a new or existing Title I manufactured home may be used to meet the minimum cash investment. The trade-in amount allowed must be documented on the Retail Sales Installment Contract or applicable document.

- **Gift.** Gifts of cash for the minimum cash investment is acceptable if the donor is the borrower's relative, the borrower's employer or labor union, an FHA approved non-profit charitable organization, a governmental agency that has a grant program to assist first time homebuyers or low to moderate income families. No repayment of the gift may be expected or implied.

  The gift donor may not be a person or entity with an interest in the sale of the property, such as the seller, dealer, manufacturer, real estate broker or any person or any other affiliated entity. Gifts from these sources are not permitted on Title I manufactured housing loans.

- **Secured loan.** An applicant may borrow the funds needed for the minimum investment and funds to close provided the funds are secured by other property the applicant owns. The security must not be against the home being purchased. Unallowable borrowed funds include signature loans, cash advances on credit cards, loans on household goods and furniture and other similar unsecured loans. Documentation of the loan and the associated security must be provided. The loan payment for the secured loan must be included when calculating the debt-to-income ratio.

## 4-3 LIABILITIES

**A. Housing Expenses.** Housing expenses include loan payments for the manufactured home, property taxes, hazard insurance, lot rent, lot loan payments and homeowner association dues. Housing expenses do not include utility payments or estimated maintenance expenses.

**B. Total Fixed Expenses.** Total fixed expenses include housing expenses plus other recurring charges. Recurring charges include payments on automobile loans, furniture loans, student loans, installment loans, revolving charge accounts, alimony or child support, and any other debt where the obligation is expected to continue for six months or more. The following items provide guidance on the treatment of expenses.

- **Revolving Accounts.** If the minimum monthly payment cannot be verified by the credit report, the lender must calculate the monthly payment as the greater of 5 percent of the balance or $10.00.
- **Co-signed Debt.** If an applicant is a co-signor on a debt, and another party is making the payments, the required payment amount does not have to be included in the total fixed expenses if the obligation meets the following tests:
  - The party making the payments must also be a signor to or legally liable for the obligation.
  - Proof that the other party has been making the payment for at least 12 months.
  - No delinquent payments within the past 12 months.
- **Divorce.** Debts partitioned in divorce are treated as co-signed debt for the non-assigned party. An assignment of a debt to a former spouse in a divorce decree will not prevent a debt from being included in a borrower's debt ratio unless the debt meets the above tests.
- **Payroll Debt.** The lender must examine the borrower's most recent 30 days of pay stubs to look for obligations that are not on the credit report or credit application. Certain debts, such as employer loans and garnishments, may not appear on other documentation.
- **Future Obligations.** Payments on obligations, such as deferred student loans, that are scheduled to begin within twelve months, must be included in the total fixed expense calculation.

## 4-4 INCOME

The anticipated amount of income, and likelihood of its continuance, must be established to determine a borrower's capacity to repay the loan. Only stable income may be considered. A lender may consider income to be stable if it is reasonably expected to continue during the first two years of the loan. This must be determined by verifying the source(s) of income for the previous two years.

A. **Verification requirements.** A lender must verify and document the borrower's employment and income history for the past two years and determine the likelihood of continued employment.

- **Verification of Employment and Income.** If computer generated W-2 forms and pay stubs are not available for the past two years, the lender must request that the employer complete a verification of employment and income form that must provide at minimum the following information:

  - Employer' name and address
  - Employee's name and address
  - Employee's job position
  - Employee‘s length of employment to include start date
  - Employee's rate of pay
  - Employee's earnings for the past 2 years and current year to date
  - Employee's earnings for bonuses or overtime and if they are likely to continue

  The form must be signed and dated by an authorized official of the company completing the form. The form must be returned directly to the lender.

- **Family-Owned Business.** Borrowers employed by a family members business must provide additional income documentation. The borrower must provide the regular verification of employment documents, such as W-2's, pay stubs, and written verification of deposit, but they must also show that they do not have ownership in the business. This may require the borrower to submit their personal tax returns and/or the tax returns from the business to prove ownership.

- **Slow or No Response to Verification Request.** When the lender can only obtain employment verification via a telephone call with the employer, a statement documenting the efforts that have been made, and the specifics of the conversation with the employer, must be in the loan file. The lender must then place significant weight on the information reflected on the W-2 and pay stubs. Depending upon the circumstances, the lender may choose to require tax returns to verify employment and income.

- **Difficulty Reaching a Former Employer.** Where a lender cannot reach a former employer, a statement documenting the efforts that have been made must be in the loan file. The lender must place significant weight on the information reflected on the W-2 and pay stubs. Depending upon the circumstances, the lender may choose to require tax returns to verify employment and income.

- **Payroll stubs.** Computer generated payroll stubs are an acceptable form of verification of employment. The lender should obtain the last 30 days of pay roll stubs. The payroll stub should contain year to date information and breakdown the pay as regular hours verses overtime or bonus money. The pay stub will generally show payroll deductions that may need to be treated as liabilities and do not appear on the credit report.

**B. Retirement and Social Security Income.** Retirement and social security income should be documented by awards letters which will indicate the amount of the benefit and the likelihood of it continuance. If any benefits will expire within the first three years of the proposed Title I loan, the income source may be considered only as a compensating factor.

**C. Alimony, Child Support or Maintenance Income.** Income from these sources may be considered provided the income will continue for another 3 years and is documented to be consistent. The applicant must provide a copy of the final divorce decree, legal separation agreement, or voluntary payment agreement, as well as evidence that payments have been consistently received during the last twelve months. Acceptable evidence includes cancelled checks, deposit slips, tax returns, and court records. Periods less than twelve months may be acceptable, provided the payer's ability to make timely payments is adequately documented.

**D. Overtime & Bonus Income.** Overtime and bonus income may be used to qualify if the borrower has received this income for the past two years and it is expected to continue. Periods of less than two years may be used, but the lender must justify and document in writing the decision to use this income for qualifying purposes. Overtime income and bonus income must be averaged over a period of two years, and longer if the income does not appear to be steady. The verification of employment statement that the employer completes must also indicate that the overtime and/or bonus money is likely to continue.

**E. Self-employment.** Income from a self-employed borrower may be considered stable if the borrower has been self-employed for two years or more. A borrower self-employed at least one year but less than two years, must be able to document at least two years of employment in the line of work in which the borrower is currently self-employed. A borrower who has been self-employed for less than one year may not use self-employment income to qualify.

The following documents are required to evaluate self-employed income:

- Signed and dated individual tax returns, plus all applicable schedules for past two years
- Signed copies of federal business income tax returns, plus all applicable schedules for the past two years if the business is a corporation or partnership.
- Year to date profit and loss statement and balance sheet
- Business credit report on the business

**Non-Taxed Income.** Certain sources of regular income, such as disability payments, military allowances, public assistance payment are not subject to federal tax. Therefore, the lender may "gross up" that income by the by the appropriate tax rate for that income. If the borrower is not required to file a federal tax return, the income may be grossed up by 25 percent.

F. **Limited Work Experience.** If the applicant cannot document employment for the past two full years, their current income may be included in the debt-to-income ratios if the applicant can provide a reasonable explanation, which must be documented and maintained in the loan file. Some examples of reasonable explanations are as follows:

- Documented proof that the applicant was in the military or attending school for a portion of the two year period.
- Documented proof that their source of employment is seasonal, such as in the building or farming trade.
- The applicant recently returned to the work force after an extended absence provided they have been employed in their current job for at least six months and they can document a two-year work history prior to the absence from the work force.

G. **Income Averaging.** The lender may choose to average income over the course of a two year period if the source of the income is stable or increasing, but varies over the course of a year. An example of this would be commission income. Income of this nature that is declining must not be averaged. In this case, the income from the most recent period should be used. Documentation justifying the decision to average the income must be kept in the loan file.

## 4-5 CREDIT INVESTIGATION

A lender must conduct a credit investigation. The credit investigation must include a review of the information provided on the loan application, credit report information and all other loan documentation.

A. **Applicant Interview.** Before making a determination on the creditworthiness of an applicant, a lender must conduct an interview to resolve any discrepancies between the information on the loan application and information on the credit report to determine accurate and complete information.

B. **Credit report.** As part of its credit investigation, a lender must obtain a Tri-merged consumer credit report containing the credit accounts and payment history of each applicant.

1. **Credit score.** Credit reports will typically include a credit score. HUD requires lenders to include available credit score data when reporting a loan for insurance. Lenders may consider credit scores when performing their underwriting review but HUD has not established a credit score level that would replace the credit underwriting requirements for this program. The credit score will only affect the amount of down payment required.
2. **Three Repositories Merged Credit Report (TRMCR).** A TRMCR has information from all three major credit bureaus and HUD requires one be obtained for each applicant.

3. **<u>Recent Credit Inquiry.</u>** When inquires within the past 90 days appear on the borrower's credit report, the lender must verify whether new debt was created that is not yet showing on the credit report. If new debt was created and not reported on the loan application, the lender must receive a written satisfactory explanation from the borrower as to why the new debt was omitted from the loan application. If the explanation is acceptable to the lender, the new debt will need to be included when calculating the debt to income ratio.

4. **<u>Obligations Not on the Credit Report.</u>** Debts referenced on the loan application but not on the credit report must be included when calculating the debt to income ratios.

5. **<u>Derogatory Information.</u>** Minor derogatory information occurring more than two years ago does not require explanation. More recent problems and more serious matters, such as judgments and collection accounts, require written explanation from the applicant. The lender must determine that the explanation provided demonstrates a responsible attitude towards maintaining good credit and is consistent with other information obtained by the lender.

6. **<u>Previous Foreclosure.</u>** A Title I manufactured home loan applicant who had a previous home loan foreclosed on, repossessed or lost through a deed-in-lieu of foreclosure is ineligible to apply for another loan for three years from the date of said action. An applicant may be considered eligible provided there are documented extenuating circumstances that were beyond the control of the applicant and the applicant has re-established good credit. Acceptable extenuating circumstances include serious illness or death of a wage earner, but do not include the inability to sell the house because of a job transfer or relocation to another area.

7. **<u>Nontraditional Credit.</u>** The Federal Housing Administration (FHA) has long permitted mortgage lenders to establish a borrower's credit history through nontraditional means, including the compilation of performance on rental payments; utility bills; telephone and cellular phone services; cable television service; payments to local stores, etc. This practice is appropriate when the borrower has insufficient trade lines with Equifax, Experian, or TransUnion and a credit bureau score cannot be derived. Mortgage lenders also may use nontraditional credit verification to augment "thin-file" credit reports where a credit score was generated but based on only a few trade lines. However, nontraditional credit reports may not be used to enhance any poor credit history on a traditional credit report.

**<u>Nontraditional Credit—Basic Guidance</u>**

The following provides guidance in establishing that a borrower has sufficient credit references for evaluating bill paying habits, which include: three (3) credit references, including at least one from Group I, covering the most recent 12 months activity from date of application. Group I references should be exhausted prior to considering Group II for eligibility purposes, as Group I is considered more indicative of a borrower's future housing payment performance. Borrowers with no Group I trade references will be underwritten using the criteria set forth under "insufficient credit" below.

G<u>roup I</u> – rental housing payments (subject to independent verification if the borrower is a renter), utility company reference (if not included in the rental housing payment), including gas, electricity, water, land-line home telephone service, cable TV.

If the borrower is renting from a family member, request independent documents to prove regularity of payments, such as cancelled checks.

Group II – insurance coverage, i.e., medical, auto, life, renter's insurance (not payroll deducted); payment to child care providers – made to a business providing such services; school tuition; retail stores – department, furniture, appliance stores, specialty stores; rent to own – i.e., furniture, appliances; payment of that part of medical bills not covered by insurance; Internet/cell phone services; a documented 12 month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in an increasing balance to the account; automobile leases, or a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments.

**Verifying Nontraditional Credit**

We prefer all nontraditional credit references be verified by a credit bureau and reported back to the lender as a nontraditional mortgage credit report (NTMCR) in the same manner as traditional credit references. A NTMCR is designed to assess the credit history of the borrower without the benefit of institutional trade references and should format as traditional references – including creditor's name, date of opening, high credit, current status of the account, required payment, unpaid balance, and a payment history in the delinquency categories of 0x30, 0x60 etc. It should not include subjective statements such as "satisfactory, acceptable, etc."

Only if a NTMCR is impractical or such a service is unavailable may a lender choose to obtain independent verification of trade references. Documents confirming the existence for a nontraditional credit provider may include a public record from the state, county, or city records, or other means providing a similar level of objective confirmation. To verify the credit information, lenders must use a published address or telephone number for that creditor and not rely solely on information provided by the applicant. Rental references from management companies with payment history for the most recent 12months may be used in lieu of 12 months cancelled checks. Credit references may also be developed via independent verification directly to the creditor. If a method is used to verify credit information or rental references other than NTMCR, all references obtained from individuals should be backed up with the most recent 12 months cancelled checks.

In addition, FHA has no objection to the use of various service providers now operating that are able to develop a bill payment history, as well as a score by obtaining rental payment history, utility trade-lines, and other common recurring non-reporting bill payments. While we do not endorse any particular service provider, FHA approved lenders may use such services to develop a credit history for borrowers with no or little traditional credit.

**Evaluating Nontraditional Credit**

The following offers guidance in evaluating borrowers with nontraditional credit histories. A satisfactory credit history, at least 12 months in duration, is to include:

- No history of delinquency on rental housing payments
- No more than one 30-day delinquency on payments due to other creditors
- No collection accounts/court records reporting (other than medical) filed within the past 12 months

**Insufficient Credit**

The following offers guidance in evaluating borrowers with no traditional credit references, or otherwise having only Group II references. A satisfactory credit history, at least 12 months in duration, is to include:

- No more than one 30-day delinquency on payments due to any Group II reference
- No collection accounts/court records reporting (other than medical) filed within the past 12 months

In addition, for such borrowers, to enhance the likelihood of homeownership sustainability, the following underwriting guidance is being provided:

- Qualifying ratios are to be computed only on those occupying the property and obligated on the loan, and may not exceed 31 percent for the payment-to-income ratio and 43 percent for the total debt-to-income ratio. Compensating factors are not applicable for borrowers with insufficient credit references.
- Borrowers should have two months of cash reserves following loan settlement from their own funds (no cash gifts from any source should be counted in the cash reserves for borrowers in this category).

**8. Bankruptcy.** A borrower who has filed for bankruptcy is not eligible for a Title I loan unless they meet one of the following criteria:

   **a. Chapter 7.** A borrower must have been discharged from a Chapter 7 bankruptcy for at least two years, and had no delinquent obligations for the previous year.

   **b. Chapter 13.** A Borrower must have completed the bankruptcy plan and been discharged from a Chapter 13 bankruptcy. A borrower who is still in an active Chapter 13 bankruptcy may also be considered eligible, provided that one year of the payout period under the bankruptcy has elapsed and all required payments have been made on time. In addition, the applicant must receive permission from the court to enter into the loan transaction.

**9. Consumer Credit Counseling Payment Plans.** A borrower participating in a consumer credit counseling payment program may be considered eligible provided that the lender can document that one year of the pay-out period has elapsed under the plan and the applicant's payments have been made on time. In addition, the applicant must receive written permission from the counseling agency to enter into the loan transaction.

## 4-6 VERIFYING IDENTITY AND THE SOCIAL SECURITY NUMBER

A lender must verify and document the identity of the applicant and provide verification that the applicant's Social Security Number (SSN) is valid.

**A. Identity verification.** To verify identity, a lender must receive a photocopy of government issued photo identification, such as a driver's license or military I.D. card for all borrowers to the transaction. This photocopy must be retained in the loan file.

**B. SSN Verification.** To assist in confirming the identity of the holder of the social security number, the lender must receive a copy of the social security card or some other computer generated and acceptable proof of social security number for all borrowers in the transaction. The lender must retain documentation of the SSN verification used in the loan file. Each Title I loan applicant reported to HUD will be also be subject to the SSN validation process through FHA Connection

1. **Acceptable SSN Documentation.** A lender may accept any of the following documents as verification of the validity of the SSN:

- A driver's license or an identification card issued by a governmental agency that displays the applicant's SSN.
- A computerized earnings statement, payroll stub, or bank statement that shows the applicant's name, address and SSN.
- A Federal or State income tax return with a preprinted address label.
- An IRS Form W-2 or Form 1099 that shows the applicant's name, address and SSN.
- A benefit award letter from a governmental agency, employer, or life insurance company that displays the SSN.

2. **Unacceptable SSN Documentation.** The following types of documents are not considered acceptable for verifying the validity of an applicant's SSN:

- Documents that are produced for or completed by an applicant, such as wallet identification cards.
- Documents that have little or no official status, such as club membership cards or library cards.
- Documents on which the name, address, age, physical description, or SSN of the bearer has been altered.

NOTE: A lender must investigate and take all necessary steps to resolve any discrepancy with the social security number, such as more than one SSN being used for an applicant, or a warning on the credit report indicating that the SSN used belongs to another person.

## 4-7 DEBT-TO-INCOME RATIOS

The maximum monthly housing expenses to gross income ratio is 31% and the maximum total monthly fixed expenses to gross income ratio is 43% (these ratios increase to 33% and 45% when the home being financed can be documented to be Energy Star compliant).

## 4-8 COMPENSATING FACTORS

If a debt-to-income ratio exceeds HUD's maximum allowable amount by two percent or less, a compensating factor may be considered when determining eligibility. Examples of acceptable compensating factors are:

1. An applicant has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for 12 months or more.

2. An applicant regularly receives benefits not included in effective gross income that directly impact the applicant's ability to meet financial obligations. Examples include employee benefits (company car, clothing allowance) and public benefits (food stamps).

3. An applicant has substantial cash reserves after closing (i.e., a savings account large enough to supply income for several months).

4. An applicant's total fixed expenses have been at the same or even higher level than the proposed new loan for the past two years without any evidence of delinquency.

5. An applicant makes a down payment of 10 percent or more. Not to be considered a compensating factor if the 10 percent is required based on credit score.

6. An applicant has potential for increased future earnings, as indicated by job training or education in the applicant's profession.

7. A home is being purchased as a result of the recent employment relocation of the primary wage earner, and the secondary wage earner, who has an established history of employment, can reasonably be expected to find work soon. The underwriter must address the prospects of finding employment.

# APPENDIX 5
# DOCUMENTATION AND OTHER PROCESSING REQUIREMENTS

## 5-1 NOTICE OF HUD'S ROLE

HUD requires the lender to provide a written notice to clearly inform each borrower that the loan will be insured against default by HUD and about the actions that will be taken by HUD to collect the loan if the borrower defaults. This notice also serves to document the borrower's agreement to pay any penalties and administrative costs that may be assessed by HUD.

**A. Borrower Acknowledgment is Required.** The lender must have each borrower sign a copy of the notice at loan origination. The copy signed by the borrower(s) must be retained in the loan file.

**B. Wording of the Notice.** HUD does not provide a form for the notice of HUD's role. A lender must prepare the notice on the lender's letterhead. The Notice must read as follows:

> *You have applied for a manufactured home loan that is to be insured by the Department of Housing and Urban Development. If you fail to repay this loan as agreed, we may foreclose or repossess the home or other property securing this loan and sell it. It is important for you to understand that the value of your property at the time of repossession/foreclosure may be less than the unpaid balance on you loan, leaving you liable for the difference.*
>
> *After your property is sold, we may assign the remaining debt to HUD for collection.*
>
> *Failure to pay this debt to HUD may result in offset of Federal payments due you (including Federal income tax refunds, Social Security benefit payments, and Federal employee wages or retirement) or may result in the administrative garnishment of your wages. In addition, failure to pay may result in the referral of the debt for collection to the Department of Justice, to the Department of the Treasury, or to private collection agencies. In addition to principal and interest on the debt, you will be liable for the payment of any penalties or administrative costs that may be imposed by HUD as authorized by Section 3717 to Title 31 of the United States Code.*
>
> *Your signature below indicates that you have read and understand this notice, and that you consent to pay any penalties, administrative costs, and interest that may be assessed by HUD.*

## 5-2 SITE REQUIREMENTS

The home must be placed on a site that complies with minimum standards and requirements for site suitability. The site must also comply with standards, ordinances, and regulations, if any, issued by State or local government.

**A. Manufactured Home Site Standards.** The manufactured home must be placed on a site that meets the following standards:

- Complies with local zoning ordinances and regulations, if any.
- Provides adequate vehicular access from a public right-of-way.
- Must have an adequate water supply and an adequate sewerage disposal system. The site must use public or community water and sewerage systems, unless such systems are unavailable to provide an adequate level of service to the manufactured home site. If the site is served by an on-site water or sewerage system, the site must comply with local or state minimum lot area requirements applicable to such systems.
- Served by adequate utility connections.
- Meets any other minimum local standards and requirements for a manufactured home site.

**B. Certification Required.** A lender must document that the home site complies with the standards outlined above and otherwise provides a suitable site for a manufactured home. Where possible, the lender must obtain a certification, or other appropriate documentation, from an appropriate state or local government official.

If documentation from a government official is not available, a certification from a civil engineer or other competent inspector must be obtained. The inspector may be an employee of the lender, but may not be employed by the selling manufactured home dealer, or otherwise have a financial interest in the subject transaction. The written certification must be retained in the loan file.

**C. Lease Requirements.** When a manufactured home is to be placed on a leased site in a manufactured home community, the lease must comply with the following:

- Must be for a term of three years or longer.
- Must be renewable upon the expiration of the original term by successive terms of one year or more.
- Must require the lessor to provide the lessee written notice of termination of the lease not less than 180 days prior to the expiration of the current lease term in the event the lessee is required to move due to the closing of the manufactured home community. The lease must further provide that the lessor's failure to give such notice to the lessee in a timely manner will cause the lease term, at its expiration, to automatically renew for an additional one year term.

**D. Native American Reservations and Other Restricted Lands.** A manufactured home may be placed on an owned or leased site within Native American trust or otherwise restricted lands if the trustee or the tribal authority who controls the use of the site, provides written permission for the borrower to install a manufactured home on the site and written permission for the lender to repossess the home in the event of default by the borrower and acceleration of the loan.

## 5-3 INSTALLATION REQUIREMENTS

A. **New Home or Relocated Existing Home.** The installation or erection of a manufactured home on the home site must meet or exceed the requirements set forth in 24 CFR part 3285, the Model Manufactured Home Installation Standards, and all applicable state and local requirements governing the installation and construction of the manufactured home foundation system.

B. **Existing Home – Not Relocated.** An existing manufactured home that has not been relocated from the home site upon which it was originally erected must have been installed in compliance with the manufacturer's requirements for anchoring, support, stability, and maintenance.

## 5-4 PLACEMENT CERTIFICATE

The lender must obtain an executed Placement Certificate for Manufactured Homes using form HUD 56002 MH. The Placement Certificate must be signed by each borrower. If a dealer was involved in the sale of the manufactured home, the dealer must also sign Placement Certificate. The Placement Certificate must be retained in the loan file.

A. **Borrower Certification.** By signature, the borrower is certifying:

- The manufactured home will be occupied as the borrower's principal residence.
- The required initial payment was paid in cash and, no part of the initial payment was borrowed from or otherwise advanced or paid by the dealer or seller, the manufacturer, or any other party to the transaction. In addition, if any part of the initial payment was obtained through a gift or loan, the source of the gift or loan and the security for any such loan were disclosed on the credit application.
- The home will not be moved to a new site without prior written approval from the lender and that the new site complies with HUD's minimum standards for manufactured home sites.
- The borrower will pay the remaining unpaid balance on any other manufactured home loan secured by a different property prior to disbursement of the subject loan's proceeds, unless the prior approval of HUD is obtained for an exception to this requirement.
- The borrower has not obtained the benefit of and will not receive any cash payment, rebate, cash bonus, or anything of more than nominal value from the manufacturer or dealer as an inducement for the sale.
- The borrower acknowledges that he/she understands that the selection, purchase, and acceptance of the manufactured home is the borrower's responsibility, and that HUD does not guarantee the manufactured home or its delivery and installation.

**B. <u>Dealer Certification.</u>** By signature, the dealer is certifying:

- The manufactured home was delivered and installed in a manufactured home park or on an individual home site that meets HUD's minimum standards for manufactured home sites.
- The structural integrity of the manufactured home was maintained during the process of transporting the home to the borrower's home site.
- The manufactured home has been installed or erected on the home site in accordance with the manufacturer's requirements for anchoring, support, stability and maintenance.
- If the manufactured home was placed on a permanent foundation, such foundation has been constructed in accordance with HUD's requirements.
- The dealer has performed an inspection, tested the home, and determined that the manufactured home has sustained no structural damage or other defects resulting from its transportation, and that the installation of the home's plumbing, mechanical and electrical systems are fully operational.
- The initial payment required was paid in cash by the borrower. No part of the initial payment was loaned, advanced, or paid to or for the benefit of the borrower by the manufacturer, dealer, or any other party to the sale or loan transaction.
- The borrower has not obtained the benefit of and will not receive any cash payment, rebate, cash bonus, or anything of more than nominal value from the manufacturer or dealer as an inducement for the transaction.
- Discount points paid by the dealer are from the dealer's own resources and will not be reimbursed by the borrower(s), the manufacturer, or any other party.
- The borrower(s) signed the Placement Certificate after the delivery and installation of the home, and all signatures on the Placement Certificate are genuine.

## 5-5 HAZARD INSURANCE AND FLOOD INSURANCE

Hazard insurance is required for all manufactured home loans insured by HUD. Flood insurance is also required if the subject home site is located in a flood hazard area.

**A. <u>Hazard Insurance.</u>** Hazard insurance is required for all manufactured home loans. The amount of insurance must be no less than the unpaid balance due on the Title I loan, or not less than the actual value of the home where State law precludes a higher amount. The lender must be named as the loss payee.

If a borrower does not maintain the required hazard insurance, the lender should obtain the insurance and may pass on the expense to the borrower. However the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a lender obtains title to the home through repossession, the lender should purchase and maintain hazard insurance until the sale or final disposition of the home. The amount of insurance should be as prescribed above. The cost of such insurance may be included in the calculation of HUD's claim payment. See Appendix 9 for additional information regarding the claim process.

The lender assumes the risk if the lender fails to comply with the above requirements. Since HUD does not take the property back upon default, the claim paid by HUD is based on the deficiency balance. HUD requires the lender to sell the property prior to submitting a claim and requires the claim payment to be based on the best price obtainable. The best price obtainable is the higher of the sales price or the appraised value. Therefore, if the lender fails to place insurance on a repossessed property, HUD will not accept the loss. The appraised value, for claim purposes, will be based on the retail value of comparable homes in undamaged condition, without any deduction for such damage.

| | | |
|---|---|---|
| Example: | Loan Balance | $20,000.00 |
| | Sales Price ($9,000.00 due to damage) | |
| | Appraised Value, as if undamaged | - $15,000.00 |
| | Claim will be based on deficiency balance of $5,000, not $11,000. | $ 5,000.00 |

The best price obtainable is the higher appraised value.

**B. Flood Insurance.** Flood insurance is required if the home site is located in a Federal Emergency Management Agency (FEMA) designated flood hazard area. The amount of insurance must be no less than the unpaid balance due on the Title I loan, and the lender must be named as the loss payee.

## 5-6 OTHER DOCUMENTS

Before disbursing the proceeds of a manufactured home loan, a lender must confirm that the loan file is complete and that the following documents, if applicable to the loan, have been obtained for retention in the loan file.

- Credit Application for Manufactured (Mobile) Home, (HUD 56001 MH)
- Purchase Agreement
- Manufacturer's Invoice (or appraisal if an existing home)
- Invoices for delivery and set-up
- Invoices for skirting, air conditioning, or other appurtenances
- Itemized statements of costs, fees, and charges
- Calculation of maximum loan worksheet
- Verifications of identity and Social Security number(s)
- Credit Report
- Verification(s) of employment and income
- Documentation of LDP/GSA & CAIVRS clearance

- Verification of deposit for down payment
- Appraisal for manufactured home trade-in (if any)
- Calculation of debt-to-income ratios worksheet
- Underwriter's report/worksheet including any compensating factors
- Manufacturer's Warranty on new home (HUD 55014)
- Evidence of ownership or leasehold for individual home site
- Certification of home site suitability
- Placement Certificate (HUD 56002 MH)
- Note or assigned Retail Installment Contract
- Truth-in-lending disclosure
- Security Instrument
- Evidence of sufficient hazard insurance
- Evidence of flood insurance or determination that flood insurance is not required
- Copy of Notice of HUD's Role signed by each borrower

## 5-7 POST DISBURSEMENT INSPECTION REQUIREMENT

Dealer originated sales of manufactured homes require the lender, or an agent of the lender that is not a manufactured home dealer, to conduct an inspection of the manufactured home after it has been delivered and installed at the home site. This inspection must be completed within 60 days after the date of disbursement. The inspection is to verify and document that:

- The terms and conditions of the purchase contract have been met.
- The manufactured home and any itemized options and appurtenances included in the purchase price of the home or financed with the loan proceeds have been delivered and installed.
- The Placement Certificate executed by the borrower(s) and the dealer is in order.
- The manufactured home has been properly installed on the home site without any apparent structural damage or other serious defects resulting from the transportation or installation of the unit, and that all plumbing, mechanical and electrical systems are fully operational.

# APPENDIX 6
# LOAN INSURANCE PROCESS

## 6-1 PROCESS OVERVIEW

All Title I loan insurance is processed using HUD's FHA Connection web-site. In addition to documenting each loan, the FHA Connection serves as a primary means of communication between HUD and the lender.

HUD reviews every Title I manufactured home loan before granting insurance. The level and timing of the review(s) varies based upon HUD's past experience with the lender, the lender's status in the Title I Direct Endorsement Program and the specific details of the loan transaction.

All lenders are subject to a pre-closing review period. HUD will examine each loan **prior to closing** to ensure that the lender is consistently submitting loans that satisfactorily meet Title I program requirements. Once a lender has completed the initial pre-closing review period, which includes the submission of 10 loans that are approved to close, HUD will approve the lender for the Title I Direct Endorsement Program that will allow the lender to underwrite and close Title I manufactured home loans without prior review by HUD.

HUD performs a post-closing, pre-endorsement review of every loan before insurance is granted. HUD also performs post endorsement technical reviews and quality assurance reviews of selected loans.

A loan is not insured until HUD issues a Loan Insurance Certificate (LIC) for the loan. The LIC is an electronic document generated by HUD via the FHA Connection and is documentary evidence of the insurance.

## 6-2 FHA CONNECTION

The FHA Connection is HUD's main tool for communicating with lenders during the loan insurance process. This system is used to receive loan insurance information from lenders and for HUD to provide feedback and insurance status to lenders. All lenders must apply for and be granted access to HUD's FHA Connection website to participate in the Title I program. The web address for additional instructions for accessing FHA Connection can be found at: http://www.hud.gov/systems/index.cfm

**The FHA Connection is used for the following steps in the insurance process**:

- Case number assignment
- Completing the insurance application
- Paying the upfront insurance premium
- Reporting transfers prior to endorsement
- Reporting case updates
- Checking the case status

- Viewing/printing the Loan Insurance Certificate (LIC) or Notice of Non-Endorsement/Return (NOR)

## 6-3 DIRECT ENDORSEMENT PROGRAM

HUD's Title I Direct Endorsement Program (DE), permits lenders to underwrite and close Title I manufactured home loans without prior review by HUD.

A. **Direct Endorsement Approval.** To be approved to participate in the HUD Title I DE program, each lender must satisfactorily complete an initial pre-closing review period. During this initial review period, the lender must submit 10 loans to HUD for review and final approval before the lender may close and disburse the loan. HUD will approve the lender for DE when HUD determines that the lender is consistently submitting loans that satisfactorily meet Title I program requirements. HUD will advise the lender in writing when DE approval is granted.

B. **Underwriter Certification.** The lender must register each underwriter in FHA Connection. By registering the underwriter in FHA Connection, the lender certifies that the underwriter meets the necessary qualifications to underwrite Title I manufactured home loans. The underwriter must be a full time employee of the lender. The underwriter must be a reliable and responsible professional who is skilled in loan evaluation and is able to demonstrate knowledge and experience regarding principles of retail installment sales and mortgage underwriting.

C. **Direct Endorsement Processing**. While a DE-approved lender can originate, underwrite and close Title I manufactured housing loans without prior HUD approval, the lender must continue to report each loan to HUD by obtaining a Title I Case Number through FHA Connection. The lender must also comply with HUD's post-closing requirements, including completion of the insurance application and submitting the case binder for pre-endorsement review.

D. **Approval Limitations.** HUD may limit DE approval to certain types of loans (unit only, lot only, combination loan, etc.) based on the loan types submitted during the initial review period.

## 6-4 CASE NUMBER ASSIGNMENT

A lender reports all prospective Title I manufactured home loans to HUD via the "Case Number Assignment" screen on FHA Connection web site. The information required on this screen includes general loan information, information about the borrower, the home unit and the home site. Once the lender's submission passes all data-entry validations, it is accepted for overnight processing.

This process verifies the data submitted against a series of system validations. Once completed, the system will issue a Title I case number that will be specific to the loan transaction. The system will advise the lender if additional information is required or if corrections are needed.

## 6-5 LENDER LOAN REVIEW AND APPROVAL

A. **Loan Review.** The lender must evaluate all submitted information and documentation regarding the borrower(s) and the proposed loan in order to confirm that the loan is eligible for the Title I program and meets HUD's underwriting requirements. This determination must include resolution of any problems identified during the case number assignment process.

B. **Loan Approved.** Once a DE approved lender has approved a loan, the lender may then close the loan and proceed with the insurance application process. Lenders that do not have DE approval must underwrite the loan file and submit the loan to HUD for final approval prior to closing the loan.

C. **Denied or Canceled Loans.** Lenders must report to HUD, through the FHA Connection, the denial or cancellation of all loans for which a Title I case number has been issued.

## 6-6 HUD LOAN REVIEW AND APPROVAL

A. **Submitting Loan Documentation to HUD**. Once a lender has received a Title I case number and has made a preliminary underwriting decision to approve the loan, the lender submits all of the loan origination documents to the HUD Financial Operations Center (FOC) for review, prior to closing the loan.

HUD requires the following documentation to be submitted for review.

- Completed loan application (HUD 56001 MH).
- Proof of identity and SSN verification.
- All underwriting documentation used to determine credit eligibility.
- Manufacturer's invoice or manufactured home appraisal (existing unit).
- Retail sales installment contract.
- Invoices for options/installation costs.
- Lender's worksheet or other documents with calculation/itemization of the amount financed.
- Other pertinent documents used by the lender to determine approval.

B. **HUD Action.** HUD will promptly review the loan information entered on the FHA Connection and the loan origination documentation sent to the FOC, to determine if the loan meets all Title I program requirements. The lender will be given approval to close the loan and continue with the insurance process, or they will receive detailed feedback explaining why the loan did not meet HUD's Title I program requirements.

If the lender does not get HUD approval, they can then close the loan without HUD insurance, cancel/reject the loan, or attempt to resolve HUD's concerns by resubmitting additional or revised documentation.

## 6-7 APPLICATION FOR INSURANCE

Once the loan is closed, the lender must access FHA Connection to complete the "Application for Insurance" screen and pay the upfront insurance premium.

The lender must then place a copy of all processing and closing documents in a case binder and submit the binder, along with the Request for Endorsement letter, which is generated and printed from the FHA Connection insurance screen, to the HUD Financial Operations Center (FOC) for endorsement.

A review of the information submitted on the "Application for Insurance" screen, along with a review of the documentation contained in the case binder are critical aspects of HUD's pre-endorsement review assessment.

**A. FHA Connection.** The Application for Insurance screen requires the lender to enter additional data about the loan. The system will either confirm that the data entered was accepted, or will provide information regarding corrections the lender must make to successfully complete this step. Data fields that must be completed are grouped by the following subject areas:

- General loan information
- Lender information
- Credit/Underwriting information
- Borrower information
- Address Information

**B. Case Binder.** HUD requires the following documentation to be included in the case binder. These documents may be sent in either hardcopy or electronic format. HUD does not require a specific electronic format but reserves the right to reject electronic documents if the format is not compatible with HUD systems or if otherwise not readable by HUD.

- Request for Endorsement Letter
- Loan Application (HUD 56001 MH)
- Proof of Identity and SSN verification
- Notice to Borrower of HUD's Role
- Retail Sales Installment Contract

- Retail Purchase Contract
- Lender’s worksheet or other documents with calculation/itemization of the amount financed.
- Proof of hazard insurance coverage showing amount of coverage and the amount of the annual premium if the premium was financed
- Documentation to support flood insurance determination, proof of flood insurance if required, showing the amount of coverage and the amount of the annual premium if the premium was financed
- Manufacturer’s invoice or manufactured home appraisal (existing unit)
- Invoices for options/installation costs
- Manufacturer’s Warranty

- Underwriter’s worksheet with debt ratio calculations
- Credit report(s)
- Non-Traditional References if applicable
- Explanation for any existing credit problems and recent inquiries within 90 days
- Rental lease for lot if applicable to document monthly rental cost and all terms of the 3 year leasehold requirement.
- Worksheet or other document with initial payment itemization and asset verification
- Gift letter (if applicable).
- Verification of employment
- Income documentation
- Site Certification
- Placement Certificate

## 6-8 INSURANCE TIME LIMITS

A. **Initial Request for Endorsement**. The insurance application request must be received by HUD within 30 days from the date of disbursement of the loan. The insurance application request is considered complete once HUD has received the case binder, the upfront premium has been paid and the insurance application on the FHA Connection has been completed and has passed all system validations.

The date a case binder is received is based on the date the FOC actually receives the required loan documentation. The lender is responsible for having the case binder delivered to the FOC within the allotted time period. Lenders may confirm the date that the loan documentation was received by accessing the Case Status screen on FHA Connection.

B. **Resubmitted Request for Endorsement.** The FOC will generate a Non-Endorsement Notice of Return (NOR) via FHA Connection if the initial submission of the loan is determined to be ineligible for insurance.

The NOR will indicate the reason(s) for non-endorsement and any corrective actions required by the lender. The lender may cure any deficiency and resubmit the request for endorsement to the FOC for reconsideration. The FOC must receive the resubmitted request for insurance endorsement within 30 days from the date the NOR was issued.

**C. Late Request for Endorsement.** A Late Endorsement Certification must be submitted to HUD with the insurance package for review and consideration if the loan is not submitted for endorsement within the required 30 day period after closing.

1. **Late Endorsement Certification.** The late endorsement certification must be dated, identify the Title I case number, include the name(s) of the borrower(s) and be signed by an authorized representative of the lender. The certification must be on company letterhead, which includes the lender's complete address and telephone number. The certification must state the following:

   - At the time of the certification, no loan payment was currently past due more than 30 days and;
   - The lender or its agents did not provide the funds to bring and/or keep the loan current or to bring about the appearance of an acceptable payment history.

2. **HUD Determination of Endorsement.** HUD will review the lender's certification and make a determination to accept or reject the request. HUD will endorse the loan provided the final review indicates that the degree of risk to the Department has not increased since the time of closing. A loan that is in default when submitted for endorsement will not be insured, except in those instances where it can be demonstrated that HUD was responsible for a delayed request for endorsement.

## 6-9 PRE-ENDORSEMENT REVIEW

HUD performs a pre-endorsement review on every Title I manufactured home loan before granting insurance. This review is completed after the loan has closed and the funds have been disbursed.

During the pre-endorsement review, HUD determines if the loan meets all program requirements. HUD will review the documentation to ascertain if there is any indication that any certification or required document is false, misleading, or constitutes fraud or misrepresentation.

**A. Loan Insurance Certificate.** Once approved for endorsement, HUD will endorse the loan via the FHA Connection and issue a Loan Insurance Certificate (LIC). The LIC will be made available to the lender through FHA Connection. The LIC must be printed and retained by the lender in the case binder.

**B. Non-Endorsement Notice/Notice of Return.** If HUD determines the loan to be ineligible for endorsement, the FOC will generate a Non-Endorsement Notice/Notice of Return (NOR) via the FHA Connection. The NOR will include the reason(s) for non-endorsement and detail any corrective action that must be taken by the lender.

Corrective action may include providing the FOC with additional or revised documentation for the case binder or providing additional or revised data on the “Application for Insurance” screen. After taking corrective action, the lender can access the Insurance Application screen and resubmit the insurance request for review. If HUD issues a NOR and the lender chooses not to resubmit the case for review, the lender must report this to HUD via FHA Connection. The lender must also obtain a refund of the upfront premium charge paid to HUD and apply the refund to the principal balance of the loan.

C. **Final Rejection of Endorsement.** If HUD determines that the case is ineligible for endorsement based on a defect that can not be corrected, the NOR will indicate that it is a permanent rejection. In such case, the NOR will instruct the lender to notify the borrower that the loan will not be insured by HUD/FHA and to inform the borrower regarding the circumstances which make the loan ineligible for FHA insurance. The lender must also obtain a refund of the upfront premium charge paid to HUD and apply the refund to the principal balance of the loan.

## 6-10 POST-ENDORSEMENT TECHNICAL REVIEW

HUD will perform post-endorsement technical reviews on a sample of insured loans from the lender. This review includes a detailed analysis of the origination, credit underwriting and post-closing documentation provided by the lender with the request for endorsement submission. HUD may request servicing documents or other additional documentation from the lender to complete this review.

HUD will provide the lender with a rating for each loan reviewed and, if applicable, specific feedback pertaining to the rating. The ratings are as follows:

A. **Conforming**. A loan receives a rating of conforming when the loan review finds no documentation errors, omissions or violations of Title I regulations. This rating is also dependent on HUD’s determination that the lender’s decision to approve the loan was sound and the level of risk was acceptable.

B. **Deficient**. A loan receives a rating as deficient when the loan review identifies documentation errors or omissions that HUD expects can be corrected by the lender in future submissions for insurance endorsement. The rating is also dependent on HUD’s determination that the lender’s decision to approve the loan was sound and the level of risk was acceptable.

Lenders who consistently submit deficient files may be subject to increased post-endorsement technical review sampling and may risk the loss of their Title I Direct Endorsement privileges.

C. **Unacceptable**. A loan receives a rating of unacceptable when serious violations of FHA requirements were found or if documentation was missing that would be necessary to determine if underwriting guidelines were followed. HUD will issue a letter to the lender identifying the reason for the unacceptable rating. The lender is required to respond within 30 days from the date of the letter, with a satisfactory explanation as to why the loan was approved. Failure to respond, or the receipt of an unsatisfactory response, may result in HUD requesting the lender to indemnify the Department against any loss associated with the loan. If indemnified, the loan will also be flagged within the Title I Insurance System to prevent claim payment to the offending lender. Serious findings may also result in the loss of Title I Direct Endorsement privileges.

**D. Mitigated.** Loans that were initially rated as unacceptable may subsequently be given a rating of mitigated. To receive a mitigated rating, the lender must provide documentation in response to the initial unacceptable rating and HUD must determine that this documentation mitigates all risks to the Department.

**6-11 TERMINATING INSURANCE.** Once a Loan Insurance Certificate is issued, insurance on a loan may be terminated only under the following conditions.

- **Non-claim Termination.** Title I insurance may be terminated for a loan that has been prepaid in full. A lender requests insurance termination by taking the paid-in-full exception while reconciling the billing statement on which the loan appears. HUD will not grant a request for insurance termination solely because a lender is no longer active in the Title I Program.

- **Claim Termination**. Insurance may also be terminated on a defaulted loan by filing a claim.

# APPENDIX 7
# PREMIUM CHARGES: POLICIES AND PROCEDURES

## 7-1 OVERVIEW

HUD collects premium charges in exchange for the insurance protection provided by the Title I program. The premium charges for the FHA Title I Manufactured Home Loan Program consist of an upfront insurance premium and an annual premium amount, payable for the term of the loan based upon the loan's scheduled amortization.

The lender may pass the premium charges on to the borrower, provided that such charges are fully disclosed. The upfront premium charge can be financed as long as it is properly disclosed to the borrower and does not exceed the maximum loan limits.

Loans originated by dealers must have the borrower execute the Rider for Upfront Insurance Premium which authorizes the lender to charge the borrower for this premium charge. See Appendix 13 for a sample of the rider.

The annual premium charge must be paid for the full term of the loan unless the loan is prepaid in full or a claim is submitted to HUD.

## 7-2 PREMIUM CHARGE RATES

**A.** **General.** HUD is required to establish premium charges in amounts that are sufficient to operate the reformed Title I Manufactured Housing Program. The premium charge rates are based on HUD's analysis of available historical manufactured home loan data.

**B.** **Upfront Insurance Premium.** The upfront insurance premium charge for all Title I manufactured home loans is 2.25 percent of the principal amount of the loan. This charge may be financed into the loan provided that the final loan amount does not exceed the maximum loan limit. See Appendix 13 for rider to be executed if the loan was originated by a dealer.

**C.** **Annual Mortgage Insurance Premium.** The annual insurance premium charge is 1.0 percent of the remaining principal balance, based upon the loan's scheduled amortization. The annual premium charge must be paid for the full term of the loan unless the loan is prepaid in full or a claim is submitted to HUD.

## 7-3 PREMIUM CHARGE BILLING

A. **Upfront Insurance Premium.** Upfront insurance premium charges are remitted pre-endorsement as part of the loan's origination process. HUD does not mail the lender an invoice or premium billing statement for the upfront premium charge. The upfront insurance premium amount will be calculated by FHA Connection during the insurance application process.

B. **Annual Premium Charge**

1. **Billing Statement.** HUD issues and mails a Title I billing statement each month to the lender. The billing statement is also available to lenders via the FHA Connection in both readable and data formats.

   The Title I monthly billing statement will show the total amount due to HUD for that particular month. The billing statement will differentiate loans that are originated under the FHA Manufactured Housing Loan Modernization Act of 2008, from property improvement and/or manufactured home loans that were originated under the portfolio loan insurance program and still covered by the lender's insurance reserve account.

2. **Billing Schedule.** The first annual premium charge will be reflected on the monthly statement at the beginning of the second year of the loan. The charge will appear on the billing statement for the monthly billing cycle that corresponds to the loan's disbursement date. Subsequent annual premium charges will be billed during the same month each year.

3. **Nonstandard Loan Terms:** If the loan term includes a partial year (e.g. 12 years and 6 months), the annual premium charge for the final partial year is pro-rated based on the number of months remaining (e.g. 0.50 percent for 6 months). HUD will include the pro-rated annual premium charge for the final partial year with the premium charge billed for the final full year, if the partial year is less than 7 months.

   For the purposes of Title I insurance, loan term refers to the term of the insurance coverage, which extends from the loan's disbursement to maturity. This may vary from the number of borrower payments required to repay the loan. The loan term varies based on the time between the date of disbursement and the date of the first payment. When calculating the loan term, HUD does not count partial months of 14 days or less. HUD counts as a full month any partial month of more than 14 days.

4. **Late Endorsement.** A loan that is submitted for endorsement after the first anniversary date of disbursement will not be endorsed until all past due annual premium charges are paid. The lender should contact the Financial Operations Center to confirm the amount due and to make arrangements for payment.

**C.** **<u>Adjustment on Notes Transferred.</u>** When loans are transferred between lenders and the premium charges on the loans transferred are already paid, any adjustments related to these charges are to be made between the lenders, with no involvement by HUD. HUD will bill the purchasing lender for any unpaid insurance charges after being properly notified of the transfer through the submission of a Title I Transfer of Note Report.

## 7-4 RECONCILING BILLED ANNUAL PREMIUM CHARGES

**A.** **<u>Reviewing Premium Charges.</u>** A lender is responsible for reviewing each Title I billing statement to be sure that the amount billed is correct. Since each billing statement reflects the current status of loans as indicated in HUD's records, a billing statement could include annual premium charges for loans where the charge is no longer due. Examples include loans that were prepaid in full during the preceding year and loans where the lender has submitted an insurance claim to HUD, but the claim is not yet noted in HUD's records.

**B.** **<u>Reconciling the Billing Statement.</u>** A lender is responsible for reconciling the billing statement with the lender's records to ensure that the billed amount and the loan activity reflected on the statement are accurate. A lender should check each billing entry to confirm the loan's status. If a loan is no longer active, the lender may withhold payment for the premium charge billed for that loan. The lender must provide HUD with data on premium charges withheld when processing payment to HUD.

**C.** **<u>Exception Reporting.</u>** The billing statement includes an <u>Exception Report Form</u> that the lender may use to itemize the adjustments that reconcile the amount billed by HUD, with the amount the lender plans to remit. The exception report breaks out these adjustments by category (prepaid, claim submitted, other, etc.) with the loan details listed and subtotaled under a related schedule. The process for making payment includes the submission of data in the same format as the exception report.

**D.** **<u>HUD Process.</u>** HUD reviews all reported exceptions and may request the lender to supply supporting documentation if deemed necessary to verify the validity of an exception. HUD will update its records as appropriate, including termination of insurance coverage where warranted. HUD will re-bill the lender for the premium charge if the exception is determined to be invalid.

## 7-5 PAYMENT OF PREMIUM CHARGES

**A. Pay.gov.** All Title I premium charges are remitted to HUD via the Department of the Treasury's Pay.gov collection service, which may be accessed via the FHA Connection.

Pay.gov provides the lender with the ability to electronically complete exception reports, make payments, and submit queries 24 hours a day. Pay.gov is a secure government wide collection portal. The application is web-based, allowing the lender to access their account from any computer with internet access.

The lender must perform a one-time setup, using the FHA Connection, which includes providing information regarding their bank account. This information is stored in the FHA's database and is used to establish an electronic cash flow account from which the upfront and annual premium charges will be paid.

**B. Due Dates.**

1. **Upfront Premium Charge.** HUD requires the upfront premium charge to be paid within 10 calendar days of the loan disbursement.

2. **Annual Premium Charges.** HUD requires that payment be made within 25 days from the date of each billing statement. The billing statement will specify the payment due date.

**C. Lender Responsibility.** HUD views the owner of the loan legally responsible for the payment of all valid premium charges. If the lender uses a servicer to handle this function, HUD can establish billing for a servicer, but the lender remains the owner of the loan portfolio.

**D. Penalty Charge and Interest.** The lender is assessed a penalty charge of 4.0 percent of the amount of any premium payment not received by HUD by the due date. Premium payments received from a lender more than 30 days after the due date are also assessed daily interest at the United States Treasury "current value of funds" rate. However, a lender is not required to pay a penalty charge or daily interest if HUD fails to issue a billing statement for annual premium charges in a timely manner.

## 7-6 ABATEMENT OF PREMIUM CHARGES

The annual premium charge must be paid for the full term of the loan unless HUD agrees to terminate the Title I insurance coverage. HUD will terminate the insurance only if the loan is prepaid in full or the lender submits a claim to HUD.

HUD will not terminate insurance because a lender decides that it no longer needs or wants insurance, or because a lender is no longer an active participant in the Title I Program. After loan insurance termination, future annual premium charges are abated and billing for future charges cease.

## 7-7 REFUND OF PREMIUM CHARGES

**A.** **Upfront Premium Charge.** HUD will only refund the upfront premium charge if a loan is not endorsed for insurance. The refund will be returned to the lender, who must apply the refund to the principal balance for the subject loan.

**B.** **Annual Premium Charges.** All annual premium charges are considered to be earned when billed. While future premium charges are abated following termination of insurance because a borrower prepays a loan in full or the lender files a claim with HUD, there will be no partial refund of premium payments already paid. If a loan is refinanced into another Title I loan, HUD will pro-rate any paid annual installments between the old loan and the new loan. HUD will use the date of the refinance to determine the amount to be pro-rated.

# APPENDIX 8
# SERVICING

## 8-1 GENERAL LOAN SERVICING REQUIREMENTS

A lender must service loans in accordance with prudent lending practices for financial institutions. The lender must have adequate systems for contacting the borrower in the event of default and shall exercise diligence in collecting the amount due. A lender will remain responsible to HUD for proper collection efforts, even though an agent of the lender may perform actual loan servicing and collection. A lender must have an organized means of identifying, on a periodic basis, the payment status of delinquent loans to enable collection personnel to initiate and follow-up on collection activities. The lender must document its records to reflect all collection activities on delinquent loans.

## 8-2 FEES AND CHARGES

Information on fees and charges that are permitted is provided in Appendix 2-4. Information on permitted late charges is provided in Appendix 2-5.

## 8-3 TRANSFER OF LOANS

A lender may sell, assign, or transfer its Title I loans, but only to a lender that has been approved by HUD to participate in the Title I program and has an active Title I contract number.

A transfer of Title I loans between lenders must be reported to HUD within 31 days of the effective date of the transfer. However, no reporting is required if an insured loan is transferred with a recourse, guarantee, or repurchase agreement. HUD can not update its records until officially notified about a loan transfer. Thus, HUD will hold the selling lender responsible for all related premium charges and will disburse claim payments only to the selling lender until an appropriately prepared HUD 27030 is received and processed.

A lender must report a transfer of loans by submitting a Title I Transfer of Note Report (form HUD 27030) to the Financial Operations Center. HUD will accept the completed HUD 27030 from either the selling lender or the buying lender as long as the form contains the signatures of authorized officials from both institutions.

Transfers of loans for Title I property improvement loans and manufactured home loans insured under the prior Title I program, must be submitted separately from manufactured home loans insured under the current Title I individual insurance program. The two insurance types cannot be submitted on the same Transfer of Note Report. The lender must complete a separate Transfer of Note Report, HUD form 27030, for each insurance type being reported. If a large number of loans are being transferred, a completed form HUD 27030 may be submitted with an attached report or electronic file attachment (i.e. Excel spreadsheet) that provides the loan level data required by the form.

## 8-4 REPORTING NONCOMPLIANCE ACTIVITIES

If a lender discovers fraud, misrepresentation, or substantial non-compliance with program requirements, the lender must promptly submit a report to HUD.
Examples of non-compliance activities that must be reported include:

- Misstatement of fact(s) on the credit application.
- Falsified documentation.
- False certifications from borrowers, dealers or inspection companies.
- Dealer's failure to submit an executed Placement Certificate.
- Dealer's failure to comply with contractual obligations to the borrower.
- Dealer referral fee or any like charges paid.
- Inaccurate or deceptive advertising and/or marketing material.
- Manufacturer's refusal to honor its warranty.

A lender must prepare a report of non-compliance on the lender's letterhead. The report must detail the non-compliance activity and must contain the following information to assist in any investigation: borrower name, borrower address, borrower telephone number, loan amount, loan date, inspection date, lender loan number, Title I loan number, loan officer name, dealer name, dealer address, dealer telephone number, and dealer tax identification number.

**The report must be sent to:**

*Housing Office of Lender Activities and Program Compliance*
*Attn: Director, Quality Assurance Division*
*Department of Housing and Urban Development*
*451 7th Street, S.W.*
*Washington, DC 20410*

If the loan has been endorsed for insurance by HUD, the insurance on the loan will stay in effect. If the non-compliance activity was caused or sanctioned by an employee of a lender, HUD may request that the lender indemnify HUD for any loss sustained, or may impose other sanctions against the lender.

## 8-5 LOAN DEFAULT AND LOSS MITIGATION

As part of prudent and diligent loan servicing, HUD expects lenders to make a reasonable effort to assist delinquent borrowers in bringing the loan current prior to accelerating the loan and repossessing the manufactured home.

**A.** **<u>Contact with the Borrower.</u>** Before taking action to accelerate the maturity of the loan, a lender or its agent must contact the borrower and any co-maker or co-signer to discuss the reasons for the default and to seek its cure. If the borrower and the co-makers or co-signers cannot be located, will not discuss the default, or will not agree to its cure, the lender may proceed to take action. A lender must document the results of its efforts to contact the borrower and any co-maker or co-signer.

**B.** **<u>Loss Mitigation Tools</u>**. HUD encourages loss mitigation to help a delinquent borrower return the loan to good standing. The purpose of loss mitigation is to assist the borrower to retain the home, to reduce HUD and lender losses, and to preserve the insurance fund. Listed below are the tools available to lenders and borrowers that can assist in bringing the loan current.

1. **<u>Refinance.</u>** An existing FHA insured loan that is in default may be refinanced, but not for an amount greater than the outstanding balance on the original loan.

2. **<u>Modification Agreement.</u>** A borrower may be considered for a loan modification if the lender determines the borrower has the reasonable ability to pay under the terms of the loan modification plan to eliminate the arrearage. A lender may enter into a modification agreement with a borrower without prior permission from HUD. A modification agreement:

   - Requires a written agreement signed by the borrower.
   - Need not be recorded.
   - May increase or decrease the monthly payment amount.
   - Cannot increase the interest rate or loan term.
   - Cannot include new funds.
   - Does not require any further insurance reporting to HUD, however, all documentation concerning the modification must be submitted if an insurance claim is filed.

3. **<u>Repayment Plan.</u>** Unlike a modification, a repayment plan does not require a signed agreement. As with a modification, a borrower may be considered for a short repayment plan if the lender determines the borrower has a reasonable ability to pay under the terms of the repayment plan. A lender may enter into a repayment plan without HUD’s permission.

   A repayment plan must be evidenced by a copy of the lender's letter to the borrower outlining the terms of the plan and does not require any further insurance reporting to HUD. When establishing and monitoring a repayment plan, the lender must assure that the status of the loan will not preclude submission of a claim for loss to HUD due to exceeding the deadline for claim submission.

4. **<u>Partial Payments.</u>** A partial payment is a payment of any amount less than the full amount due on the loan, including late charges. The lender may agree to accept a partial payment, thereby assisting a borrower who is having a temporary problem making his/her loan payment. This practice will usually be advantageous for the lender and HUD. Except as outlined below, a lender must accept any partial payment and apply it to the borrower's account or hold it in a trust account pending disposition. When partial payments held for disposition aggregate a full monthly installment, they must be applied to the borrower's account, thus advancing the date of the oldest unpaid installment.

   A lender may return a partial payment to the borrower with a letter of explanation if any of the following apply:

   - The loan is not in default.
   - The payment represents less than half of the full amount then due.
   - The payment is less than the amount agreed to in a modification agreement or repayment plan.
   - The lender has issued a Notice of Default and Acceleration.
   - The loan has been delinquent for six months.
   - The loan has been chronically delinquent (i.e. two or more instances where the account was delinquent, brought current, and then reverted back to a delinquent status).

5. **<u>Assumption.</u>** If a borrower cannot afford to continue to make loan payments and elects to sell the home, the lender may approve an assumption of the loan.

6. **<u>Short Sale.</u>** The lender may agree to release its lien on the home to facilitate the borrower's sale of the home to a third party for less than the amount due the lender. The lender may still file a claim with HUD regarding the resultant deficiency, provided that the actual sales price is not less than the value of the home as determined by a current HUD approved appraisal, and provided that the borrower remains legally liable for the remaining amount owed on the loan. A short sale release of lien, with release of liability of the borrower, requires prior approval from HUD.

**C. <u>Notice of Default and Acceleration.</u>** A lender must provide each borrower with written notice that the loan is in default and that the loan maturity is to be accelerated. This notice must be sent when the loan is at least 30 days delinquent but after the lender has attempted to contact the borrower. Exceptions to sending the notice are when the borrower agrees to a modification agreement or repayment plan, is in bankruptcy, or has voluntarily surrendered the manufactured home.

In addition to complying with applicable State or local notice requirements, the notice must be sent by certified mail and shall contain:

1. A description of the obligation or security interest held by the lender;

2. statement of the nature of the default and of the amount due to the lender as unpaid principal and earned interest on the note as of the date of the notice;

3. A demand upon the borrower either to cure the default or to agree to a modification agreement or a repayment plan, no later than the date 30 days from the date of the notice;

4. A statement that upon the borrower's failure to comply with the demand, the maturity of the loan is accelerated and full payment of all amounts due is then required;

5. A statement that if the default persists the lender will report the default to an appropriate credit reporting agency;

6. The following statement:

> This loan is insured against nonpayment by the federal government. If you do not repay the loan as agreed, we may assign the debt to the U.S. Department of Housing and Urban Development (HUD) for collection. If your loan is assigned to HUD, your failure to pay the debt in accordance with the terms set by HUD may result in any or all of the following actions:
>
> Seizing your federal income tax refunds, Social Security benefit payments, federal employee wages or retirement, or other federal payments,
>
> - Administrative garnishment of your wages if you are not a federal employee (which does not require a judgment and court order to implement),
> - Referring the debt to the U.S. Department of Justice, U.S. Department of the Treasury, or to private collection agencies,
> - Your liability for penalties and administrative costs that HUD may impose as authorized by Section 3717 to Title 31 of the United States Code (including collection fees charged by Justice, Treasury or private collection agencies.)

**D. <u>Notice to Credit Reporting Agency.</u>** If the loan maturity is accelerated and the loan is not reinstated, the lender must report the default to one or more of the national credit reporting agencies (i.e. Equifax, Experian, INNOVIS, or Trans Union).

**E. <u>Reinstatement of the Loan.</u>** The lender may rescind the acceleration of maturity and reinstate the loan only if the borrower brings the loan current, executes a modification agreement, or agrees to an acceptable repayment plan.

## 8-6 BANKRUPT OR DECEASED BORROWER

When a lender becomes aware that a borrower has filed bankruptcy or has died, the lender must take prompt, effective action to protect the lender's interest as holder of the loan.

**A. Bankruptcy.** A lender must file a timely proof of claim with the bankruptcy court, unless the court notifies the lender that the borrower has no assets. A proof of claim must be filed even if the borrower is current on the Title I loan. Since a lender must repossess and sell the manufactured home prior to submitting a claim for loss with HUD, the lender must take all steps necessary to preserve the lien against the home.

**B. Deceased Borrower.** A lender must confirm the death of a borrower via a death certificate or other reasonable evidence. A lender must determine if a probate proceeding exists and document its findings. If there is a probate proceeding, the lender must file a timely proof of claim.

## 8-7 RELEASE OF LIABILITY

A lender may not release the borrower or any co-maker or co-signor from liability under the note without prior approval from HUD. An exception may be possible if there is an assumption.

## 8-8 ASSUMPTIONS

**A. Conditions for Assumption.** At the option of the lender, an existing Title I loan may be assumed, subject to the following conditions:

1. A determination by the lender that the assumptor is eligible.
2. A determination by the lender that the assumptor is an acceptable credit risk based on HUD's underwriting requirements.
3. The execution of an assumption agreement that is satisfactory to the lender and is signed by the assumptor and the original borrower(s) or previous assumptor(s) at the time of assumption. This agreement must obligate the assumptor for repayment of the loan so that the original note is valid and legally enforceable against the assumptor.
4. Prior to execution of the assumption agreement, the lender must provide the assumptor with a "Notice of HUD's Role" and obtain the assumptor's acknowledgement.

**B. Release of Liability.** If the conditions above are met, the lender, at its option, may release the original borrower(s) and any intervening assumptor(s) from liability for repayment of the Title I loan. Approval from HUD is not required. The lender should retain documentation of the release in the loan file.

**C. No Release of Liability.** If a lender opts not to release the original borrower(s) and intervening assumptor(s), the lender must comply with the servicing requirements outlined in this section as they pertain to the previous borrowers/assumptors as well as with the current assumptor-borrower. In particular, the lender must mail the notice of default and acceleration to previous borrowers/assumptors and repossess/foreclose against the security in such a way as to preserve the legal liability of the previous borrowers/assumptors.

If a lender does not formally release the original borrowers/assumptors at the time of the assumption, then the lender must use caution not to inadvertently release them during the servicing and liquidation of the loan. The requirement that the lender maintains and assigns to HUD a legally enforceable note pertains to any borrower who was not officially released from liability.

**D.** **Assumption fee.** A lender may charge up to one percent of the unpaid principal balance as a fee for approving the assumptor and preparing the assumption agreement.

**E.** **Reporting.** Lenders are required to report assumptions to HUD. Lenders must report the assumption to HUD in order to have the current borrower's name reflected on future insurance charge billing statements. An assumption may be reported via mail, fax, or email to the Financial Operations Center. When reporting an assumption, the lender should supply the FHA case number, the name of the original borrower and the name(s) and Social Security number(s) of the assumptor(s).

## 8-9 PROCEEDING AGAINST THE LOAN SECURITY

After acceleration of the maturity on a defaulted loan, a lender must proceed against the loan security by repossession of the collateral. Any action must be in compliance with all applicable State and local laws, and the lender must acquire proper marketable title to the manufactured home securing the loan. The lender shall also take all actions necessary under federal, state and local law to preserve its rights to obtain an enforceable deficiency against the borrower.

**A.** **Abandonment**. If a lender determines that the manufactured home has been abandoned, the lender may proceed against the security without waiting for the expiration of the 30-day period provided in the Notice of Default and Acceleration. The lender must document how it determined that the home was abandoned.

**B.** **Condition report.** Prior to repossession, the lender or its agent shall make a visual inspection of the manufactured home and prepare a report regarding the condition of the home. The report must also detail the condition of any components or accessories that were financed with the manufactured home (i.e., refrigerator, air conditioner, etc.), and list any that are missing. The report must be retained in the loan file.

**C.** **Appraisal.** A lender shall obtain a HUD-approved appraisal of the manufactured home as soon after repossession as possible, or earlier with the permission of the borrower. The appraisal shall be performed on the home site unless the site owner requires that the home be removed before the appraisal can be performed. The appraisal should reflect the retail value of comparable manufactured homes in similar condition and in the same geographic area where the repossession occurred. The appraised value is part of the calculation of the insurance claim payment.

1. **<u>Appraiser Qualifications and Fees.</u>** A lender must use an independent fee appraiser who has been certified by the National Automotive Dealers Association (NADA) to use NADA's National Appraisal System. The appraiser must provide the lender with evidence that he/she is NADA certified. Appraisal services may be obtained from an appraisal company, as long as the individual appraiser is NADA certified, personally inspects the manufactured home, and signs the appraisal. The appraiser may not be engaged in the business of manufactured home retail sales.

   In cases where a lender is unable to locate a NADA certified appraiser within a reasonable traveling distance from the subject property, the lender may select a certified appraiser from the roster of appraisers who have been approved by HUD to perform appraisals for the FHA Title II mortgage program. The FHA appraiser selected must certify that they have experience appraising manufactured homes and determining their value. The lender's file must indicate that a full and complete search for a NADA trained appraiser was conducted prior to deciding on this option.

   Fees for manufactured home appraisals are negotiated between the lender and appraiser, and are not subject to a maximum limit.

2. **<u>Information Provided to the Appraiser.</u>** The lender must provide the appraiser with copies of the purchase agreement and home valuation documents obtained at loan origination. If the home was new when financed, the lender must provide the appraiser with a copy of the manufacturer's invoice for the home. If the home was not new when financed, the lender must provide the appraiser with a copy of the previous appraisal.

3. **<u>Lender Review.</u>** A lender must review the appraisal and other documentation provided by the appraiser for errors. For a NADA appraisal, this review includes verifying that the appraiser used the correct value chart from the appropriate NADA Guidebook and the proper condition adjustment from the NADA Field Instruction Manual. The lender must ensure that the appraiser used current forms, did not omit figures or features that would increase the value, and that the information is legible.

4. **<u>Damage to Manufactured Home While in Possession of the Lender.</u>** If the manufactured home is damaged while in the possession of the lender, the lender must document the nature of the damage and seek repair through their hazard insurance coverage. If the manufactured home is without hazard insurance, the appraisal should not have a deduction for the damage.

5. **<u>Salvage.</u>** If the repossessed manufactured home is in such poor condition that it cannot be made usable again, the appraiser must demonstrate that fact. The appraisal should reflect the manufactured home's salvage value and the method used to determine the value.

**D. <u>Repossession and Preservation Expenses.</u>** All repossession and preservation expenses paid to a third party must be documented in the loan file. Examples of such expenses include legal fees, the cost to move the home, the cost of the appraisal, hazard insurance premiums, personal property taxes, and site rental. All receipts must be legible and detailed to identify the unit, borrower, date, amount, purpose, and parties involved in the transaction. Note that there are limits to HUD's reimbursement for legal fees and moving costs in its calculation of the lender's claim payment.

## 8-10 ACQUISITION BY VOLUNTARY CONVEYANCE OR SURRENDER

Instead of repossession, a lender may accept a voluntary conveyance of title or ownership of the property securing a manufactured home loan which is in default, provided that:

- The lender accepts the conveyance in full satisfaction of the borrower's obligation and no Title I claim is submitted to HUD; or
- The lender may accept voluntary surrender of the property without satisfaction of the borrower's obligation and submit a Title I claim to HUD provided the lender disposes of the property in compliance with state and local laws so as to assure that it can assign to HUD a valid and legally enforceable obligation against the borrower for any deficiency. If a lender accepts a voluntary conveyance of title or a voluntary surrender of the property, the notice of default and acceleration is not required.

## 8-11 SALE OF THE REPOSSESSED HOME

The manufactured home should be sold to a third party and the sale must be evidenced by a sales contract. The manufactured home must be sold in a commercially acceptable manner, including all legally required notifications to the borrower(s).

A. **Best Price Obtainable.** A lender's objective in selling the manufactured home is to obtain the maximum net return in order to minimize the loss to HUD and to the lender, and to minimize the deficiency amount that will be owed by the borrower. The lender should attempt to sell the home for a net sales price of no less than the retail appraised value of the home. A lender may sell a home for less than the retail appraised value, but HUD's calculation of the insurance claim payment will be based on the best price obtainable. (See Appendix 9-2)

B. **Costs to Make the Manufactured Home Marketable.** Any expense paid to a third party to facilitate a sale by making the home marketable must be documented in the loan file. A receipt must be legible and detailed to identify the unit, borrower, date, amount, purpose, and parties involved in the transaction. Items may include the cost of repairs, furnishings, transportation, and set-up. Any expense dated after the resale date will not be eligible for eventual insurance claim reimbursement.

C. **Extra Items Sold with the Repossessed Manufactured Home.** If a lender sells an extra item in addition to the repossessed manufactured home to induce the sale, the extra item must be itemized on the sales contract and a value provided. This will allow the deduction of the item (i.e., a new washer and dryer, when none existed before) from the sales price to arrive at the sale value of the repossessed manufactured home for the purpose of claim calculation.

**D. Sales Commission.** The amount of a sales commission paid to a third party must be documented in the loan file. Determination of whether the manufactured home was sold on- or off-site must be part of the documentation. Note that HUD limits the amount of sales commission that can be included in its calculation of the lender's claim payment.

## 8-12 ENFORCEABLE NOTE

A lender must service the loan in a manner that will preserve a post-repossession resale deficiency, where state law allows. If necessary, a lender may obtain a judgment against the borrower to establish enforceability.

## 8-13 LENDER RESPONSIBILITY WHILE INSURANCE CLAIM IS PENDING

If an insurance claim is pending payment, a lender shall not pursue active collections against the borrower, but should take all steps necessary to protect the interests of HUD and the lender.

**A. Legal Notices.** The lender is responsible for answering legal notices (e.g., bankruptcy) and forwarding the information to HUD.

**B. Borrower Payments.** If a borrower sends a payment while an insurance claim is pending, the lender may either amend its Claim for Loss form or request that claim payment be expedited so that the payment can be forwarded to HUD.

## 8-14 LENDER RESPONSIBILITY AFTER CLAIM IS PAID

Since the loan has been assigned to HUD, the lender must cease all collection actions against the borrower. Any inquiries from the borrower or communications from others regarding the loan must be promptly referred to HUD's Financial Operations Center (FOC).

**A. Legal Notices.** The lender shall forward all legal notices (e.g. bankruptcy) to the FOC.

**B. Prohibition Against a Lender Collecting the 10% Co-insurance Loss.** A lender must not attempt to collect its co-insurance loss from a borrower after a claim is paid. Since full interest in the loan note is assigned to the United States of America, a lender has no basis from which to make demand upon a borrower.

**C. Borrower Payments.** All payments received by a lender after claim payment must be promptly transmitted to the FOC.

# APPENDIX 9
# CLAIM SUBMISSION

## 9-1 PRE-CLAIM REQUIREMENTS

The lender may not file a claim until all default servicing remedies stated in Appendix 8 have been applied. This servicing includes sending the Notice of Default and Acceleration, repossessing the manufactured home, appraising the home, sending the Notice of Sale, and selling the home.

## 9-2 CLAIM FOR LOSS APPLICATION FORM

A claim for insurance benefits must be made on the Title I Claim for Loss Form, HUD-637. All applicable documents indicated on the form must be included with the claim package, as well as any other documents necessary to meet the criteria shown below. The form must be signed and dated by an authorized official of the lender under applicable criminal and civil penalties for fraud and misrepresentation.

## 9-3 CLAIM DOCUMENTATION

A. **General**. The insurance claim must be fully documented for claim review. The claim submission must contain originals of all signed documents. These documents include, but are not limited to, the loan application, Note, Notice to Borrower of HUD's Role, security instrument, note assignment, assumption agreement, and placement certificate. These documents are needed to enable the HUD claim examiner to:

- Determine that the obligation was legally enforceable when assigned to HUD.
- Evaluate the lender's servicing of the loan.
- Calculate the claim amount.
- Ensure that HUD has information and documentation to effectively pursue collection of the deficiency balance from the borrower.

B. **Missing Document Statement.** The lender may submit a copy of the note and/or assignment of the note if it is missing or destroyed, provided that the lender submits a Missing Document Statement along with the copy of the note. The statement must be signed by an authorized official of the lender and include an explanation as to why the original document is not available. In addition, the statement must also attest to the following:

- The copy is true and correct.
- The obligation is valid.
- The obligation has not been satisfied, paid, or cancelled.
- The documentation provided is sufficient to enforce the obligation.
- The loan will be repurchased, at any time, if HUD is unable to enforce the obligation.

C. **Repossession Legal Notices.** The claim file must contain copies of all necessary legal notices sent regarding the repossession and sale of the manufactured home. Any proof related to the delivery of such notices should also be included.

D. **Bankruptcy and Probate.** In the case of bankruptcy or death of a borrower, the claim file must contain all related official notices and documents. Such documents include a copy of any Proof of Claim or other documents filed by the lender to protect its rights.

E. **Recourse Agreement.** The lender must exercise any right they have under a recourse agreement to have a dealer repurchase the loan note prior to filing a claim. If the lender is unable to enforce the recourse agreement, the claim file must adequately document that enforcement was not possible.

## 9-4 ASSIGNMENT OF LENDER'S RIGHTS TO THE UNITED STATES

A. **Note Assignment.** The claim package must include an assignment of the lender's entire interest in the loan note to the United States of America. The assignment of the loan note must be completed in the following format:

All rights, title, and interest of the undersigned are hereby assigned (without warranty, except that the loan qualifies for insurance) to the United States of America (HUD).

(Financial Institution)_____________________

By: ___________________________________

Title: ___________________________________

Date: ___________________________________

B. **Assignment of Security.** Since the lender must repossess the manufactured home before submitting a claim to HUD, there will be no security to assign to HUD in most cases. If, however, the lender obtained a judgment against the borrower(s), or obtained additional security for the loan beyond the minimum security required by HUD, then the judgment, or other security held by the lender, must be assigned to the United States. The document for such assignment(s) must be in a format that meets the requirements of the local jurisdiction or recording authority. The document should include a reference to HUD and the Title I Case number.

The security assignment must be recorded prior to filing the insurance claim and the original recorded assignment document should be included in the claim package. If the lender submitted the security assignment for recording in a timely fashion, but cannot provide the recorded document with the claim package due to delay at the recorder's office, or other circumstances beyond the lender's control, the lender should contact the FOC for guidance.

## 9-5 WAIVERS

A lender may request a waiver for non-compliance with a requirement. A lender must demonstrate that the non-compliance did not increase HUD's insurance risk and that the non-compliance could not have been avoided.

A waiver request must be included with the claim package sent to the FOC for processing. If the FOC is not authorized to grant the waiver, the request will be forwarded to the Office of Single Family Program Development, Home Mortgage Insurance Division, for a decision.

**A. HUD Must Have Authority to Grant the Waiver.** Some requirements are based on written law (statutory), and some are based on HUD policy decisions. A waiver cannot be granted for policy set by statutory requirements, but a waiver may be considered for other policy requirements, depending upon the circumstances.

**B. Format of a Waiver Request.** A waiver request must include:

- The requirement in question.
- Why the lender's actions were in substantial compliance with the requirement.
- Why the Government was not harmed by the non-compliance.
- Any past precedents or other documents supporting the lender's position.

## 9-6 CLAIM SUBMISSION

**A. Mailing and Tracking the Claim.** The claim must be mailed to the FOC in Albany, New York. Verification of receipt and claim payment may be made through the FHA Connection. The mailing address for the FOC is:

U.S. Department of Housing and Urban Development
Attn: Claims Branch
52 corporate Circle
Albany, New York 12203

**B. Valid and Enforceable when Assigned.** A loan obligation must be valid and enforceable against the borrower when assigned to the United States of America. If HUD has sufficient reason to believe that an obligation is not valid or enforceable, the claim will be denied. The lender may resubmit the claim after obtaining a valid and enforceable judgment for the unpaid balance of the loan.

**C.** **Maximum Claim Period.** A manufactured housing claim must be filed no later than three months after the date of sale of the property securing the loan, and not exceeding 18 months after the Date of Default. The Date of Default is 30 days after the due date of the first unpaid installment. Funds received by the lender that equal a full installment, when applied to the overdue installments in the order in which they became due, advance the date of the oldest unpaid installment. Exceptions to the maximum claim filing period are allowed when the lender can document that the length of delay was reasonable based on the following:

- Litigation related to the loan, including bankruptcy, if initiated prior to the end of the claim filing period. The claim shall be filed within three months of the end of the litigation.
- Management control of the lender being assumed by a Federal or State agency (e.g., the FDIC).
- The borrower experiencing a financial hardship directly attributable to a major disaster declared by the President of the United States.
- The lender can show clear evidence as to why the delay in claim filing was in the interest of HUD.
- Military service by the borrower as defined in the Service Members Civil Relief Act of 2003. Any period of military service after the date of default is excluded in computing the maximum time period for filing an insurance claim.

**D.** **Supplemental Claims.** A supplemental insurance claim, which is a claim for additional reimbursement, can be filed within six months after the date of payment on the initial claim. A supplemental claim is for reimbursable costs where the receipts were unavailable or not included with the initial claim. HUD charges a fee to process a supplemental claim. A check for $100.00 payable to HUD must accompany each supplemental claim request.

**E.** **Updating the Insurance Claim.** A lender is responsible for keeping information current for a claim that has already been submitted, but not yet paid.

## 9-7 CALCULATION OF INSURANCE CLAIM PAYMENT

HUD calculates the claim payment as follows:

| ***Start With*** | **Loan balance as of the Date of Default** |
|---|---|
| *Add:* | Interim Interest<br>Repossession and Preservation Costs<br>Sales Commission |
| *Subtract:* | Best Price Obtainable<br>Credit Due to the Borrower |
| ***Equals*** | **Lender Loss** |
| *Subtract:* | Co-Insurance (10%) |

| *Equals* | **Claim Payment** (90% of Lender Loss) |
|---|---|

**A. Loan Balance as of the Date of Default.** The loan balance at default is calculated by posting the borrower payments using simple interest. Since the Date of Default is 30 days after the due date of the first unpaid installment, the loan balance as of the Date of Default is the balance as of the last credited payment plus accrued interest up to 30 days past the due date of the first unpaid installment.

**B. Interim Interest.** Post-default interest HUD pays the lender as part of the claim payment. Using the loan balance as of the Date of Default, the interest is earned from the Date of Default to the claim submission date on the Claim for Loss form (form HUD 637) plus fifteen days, but not to exceed nine months in total. The interim interest rate is the Current Value of Funds Rate, as determined and posted by the Department of the Treasury.

**C. Repossession and Preservation Costs.** Costs necessary to repossess the home and maintain the home while awaiting sale include but are not limited to:

- Fee for condition report
- Fee for appraisal
- Lot rent
- Unpaid property taxes
- Moving the home to a sales lot (not to exceed $1,000 per module--i.e., $1,000 for single-wide, $2,000 for double-wide)
- Attorney's fees (not to exceed $1,000)
- Court costs (e.g., filing fee, fee for serving a summons)
- Changing locks
- Winterizing
- Hazard or Flood insurance if obtained by lender after repossession.

**D. Sales Commission.** The commission paid to a third party to sell the repossessed home may be reimbursed. The commission for selling the home while the home is still on the original site shall not exceed ten percent of the sales price. However, the commission may not exceed seven percent of the sales price if the home is moved from the original site to be sold.

**E. Best Price Obtainable.** The higher of the post-repossession appraised value, or the net sale amount, is subtracted in the claim calculation. For example, if a repossessed home has an appraised value of $25,000 but the net sale amount is $20,000, the Best Price Obtainable is $25,000.

The appraised value is the estimated as-is retail value of the repossessed home as determined by a qualified appraiser using the National Automotive Dealer Association (NADA) National Appraisal System.

The net sale amount is the net amount the lender receives after the cost for repairs, reconditioning, and upgrades are subtracted from the repossession sale amount. A few examples of allowable costs include:

- Repairs necessary to make the home habitable
- Cleaning to make the home more attractive
- Upgrades requested by the buyer (e.g., larger refrigerator)
- Costs for transportation and setup to the location chosen by the buyer

**F. Credit Due to the Borrower.** Monies paid by the borrower which have not been posted to the loan balance, must be disclosed on the Claim for Loss form. Examples include:

- Positive escrow balance
- Money in suspense
- Partial payments

## 9-8 METHOD AND NOTIFICATION OF CLAIM PAYMENT

The Debt Collection Improvement Act of 1996 directs Federal Agencies to disburse funds via Electronic Funds Transfer.

**A. Electronic Funds Transfer (EFT).** To wire payments to a lender's bank account, the Department must receive a completed form SF-3881, ACH Vendor/Miscellaneous Payment Enrollment Form. Processing this form may take several weeks, largely due to security checks and testing of the payment path through the Federal Reserve System. A lender must have the SF-3881 form on file with the Department before filing a claim.

**B. Notification and Identification of Payment.** An EFT payment will have information that includes the Title I Case Number, the borrower's last name, and the lender's loan account number. Details of each claim calculation can be found online using the FHA Connection.

## 9-9 DENIAL OF INSURANCE CLAIM

**A. Policy.** Once HUD has endorsed a loan for insurance, the insurance is incontestable regarding the origination of the loan (e.g., eligibility, underwriting, site requirements, etc.). However, HUD may deny a claim for insurance, in whole or in part, based upon HUD's requirements for loan servicing and claim submission unless a waiver for non- compliance with the requirements is granted.

**B. Process.** If claim documentation is missing or incomplete, the FOC will generally contact the lender and ask for the missing information rather than return the claim file. Non-compliance with a requirement that cannot be quickly remedied by new documentation will result in the formal denial of a claim and the claim package will be returned to the lender with a denial letter.

**C. Resubmitted Claims.** An insurance claim may be resubmitted to the FOC within six months of the date of the denial letter. A resubmitted insurance claim must contain an updated Claim for Loss form and the additional documentation addressing the denial reason(s). Any documentation that is included in the file for review must be updated to reflect any change in the loan status since the denial letter was initially issued.

**D.** **Waivers.** A lender may request a waiver to overcome non-compliance with a requirement.

**E.** **Appeals.** The lender may appeal any claim denial decision. The appeal must be in writing and sent to the FOC for processing, along with the claim package. The lender should identify the requirement in question and explain the lender's position. Should the FOC uphold the denial, the appeal will be forwarded to the Office of Single Family Program Development, Home Mortgage Insurance Division, Washington, D.C., for a final decision.

## 9-10 AVOIDING CLAIM DENIAL

Below are common problems that can result in claim denial along with possible solutions.

**A.** **Invalid Debt.** If the enforceability of a debt can be challenged, a lender can obtain a judgment against the borrower and assign the judgment to HUD. For example, improper wording or method of mailing of a legal notice may call into question whether a deficiency debt is valid. Acquiring a judgment will prove the validity of the debt.

**B.** **Late Claim Filing.** If a claim is filed late, the lender must request a waiver to document that the late filing was unavoidable. For example, an arrangement to sell the repossessed home that falls through could explain a delay. Note that a servicing error by the lender is not considered a valid basis for a waiver.

**C.** **Unresolved Borrower Complaint.** A borrower complaint that casts doubt on the enforceability of the loan note must be resolved prior to filing a claim. Obtaining a judgment against the borrower will prove the validity of the debt.

**D.** **Note and/or Assignment not an Original.** A lender may file a Missing Document Statement (See above 9-3, B) if the lender cannot locate the original Note and/or Assignment of Note.

**E.** **Error on the Appraisal.** Examples include a math error, the wrong model used to determine the base value, and a wrong component (e.g., refrigerator, water heater) value used or omitted. Usually the lender will return the appraisal to the appraiser for correction. If this is not feasible, a claim can still be paid, however HUD will adjust the claim payment amount.

**F.** **Missing or Incorrect Information on the Claim for Loss form.** The lender will be notified by the FOC if a revised Claim for Loss form is required due to missing or incorrect information. The revised form must be signed by an authorized official of the lender prior to resubmitting the form to HUD.

**G.** **Missing or Incomplete Receipts for Repossession and Resale Expenses.** Claim amounts will be adjusted lower if a receipt used to substantiate a claimed amount is missing or unclear, unless the lender can locate the receipt or clarify any information in question.

## 9-11 LOANS INELIGIBLE FOR CLAIM PAYMENT.

If a lender knows a defaulted loan is ineligible for claim payment, the lender should file an abbreviated claim with minimal documentation to stop the annual insurance premium charge. For example, if a lender knows a defaulted debt is legally unenforceable and therefore ineligible for claim payment, the lender can file an abbreviated claim to abate future annual insurance premium charges.

**A. Mailing and Tracking the Claim.** As with a claim for insurance benefits, the abbreviated claim must be mailed to the FOC in Albany, New York (See Appendix 12 for the mailing address). Verification of receipt may be made through the FHA Connection (See Appendix 12 for information on the FHA Connection).

**B. Required Documentation.** An abbreviated claim requires five items:

1. Title I Claim for Loss form (HUD-637) Part II with blocks 1 through 16, 28, and 29 completed. The form must be signed and dated by an authorized official of the lender under applicable criminal and civil penalties for fraud and misrepresentation.

2. A certification stating that the claim is being filed to stop insurance premium charges, no claim payment is expected and no claim resubmission will occur. An authorized official of the lender must sign the certification.

3. A copy of the Notice of Default and Acceleration. In the event that the notice could not be issued due to bankruptcy, documentation of the bankruptcy must be substituted.

4. Documentation that the lender updated the credit bureau reporting to show that default occurred.

5. A copy of the loan note.

**C. Processing and Notification.** An abbreviated claim will be denied since it is not payable. The claim denial will stop subsequent insurance premium charges from being billed. The Title I Case Number of an abbreviated claim will appear on the “RENEWAL CANCELLATION” section of the monthly insurance premium billing statement.

## 9-12 DEMAND FOR REPURCHASE OF A CLAIM

If substantial post-endorsement non-compliance is discovered subsequent to claim payment, HUD may demand that the lender remit the claim payment amount to HUD. However, a claim payment will become incontestable after two years in the absence of fraud or misrepresentation.

Failure to pay after demand will result in additional collection measures, including the assessment of administrative costs and penalties. HUD will reassign the note to the lender and return the loan file when the lender’s payment is received.

# APPENDIX 10
# LOT LOANS AND COMBINATION LOANS

The FHA Title I Manufactured Home Loan Program also insures lot loans and combination loans. Lot loans and combination loans are subject to the same policies and guidelines appearing in Appendices 1 through 9. Policies and guidelines that apply specifically to lot loans or combination loans are detailed throughout this Appendix.

## 10-1 MANUFACTURED HOME LOT

A manufactured home lot may consist of a deeded parcel of real estate, a lot in a subdivision or a lot in a planned unit development. A manufactured home lot may also consist of an interest in a manufactured home condominium project, including any interest in the common areas, or a share in a cooperative association which owns and operates a manufactured home community.

The lot must comply with HUD's requirements for a suitable manufactured home site (See Appendix 5-2).

## 10-2 LOT LOANS

A lot loan is used to purchase a parcel of real estate to be used as a site for placement of a manufactured home unit. A lot loan may include the cost to develop the lot to make it a suitable site for a manufactured home, including on-site water and utility connections, sanitary facilities, site improvements and landscaping.

A. **Eligibility Requirements.** In addition to the guidelines specified in Appendix 2-1, the following requirements apply for lot loans:

- **Lot Ownership.** Ownership of the lot must be held in fee simple, except when the lot consists of a share in a cooperative association which owns and operates the manufactured home community.

- **Principal Residence Only.** The manufactured home must be placed on the lot and occupied as the borrower's principal residence within six months after the date of the loan.

**B. <u>Maximum Loan Amounts</u>.**

- **<u>Maximum Loan Limit</u>.** The loan amount may not exceed the maximum loan limit set by HUD. HUD publishes the maximum loan limits for Title I lot loans on its web-site at www.hud.gov. The maximum loan limits may be adjusted following HUD's annual review of manufactured housing price data collected by the Census Bureau. Areas designated as high cost will have higher maximum loan limits.

- **<u>Maximum Loan Calculation</u>.** The maximum loan amount for a specific loan transaction is further limited by the cost or value of the particular lot as follows:

    - **<u>Down Payment</u>.** The borrower must make the minimum cash investment as a down payment based on the allowable LTV as shown in Appendix 2, Section 2-2 (B). The minimum cash investment is based on the total purchase price, plus the costs for developing the lot. The upfront insurance premium may then be added to be base loan amount, not to exceed the maximum loan limit.

    - **<u>Loan Amount Limited by Lot Value and Purchase Price</u>.** The principal amount of a lot loan must be the lesser of the following calculations shown below and shall not exceed the allowable LTV as shown in Appendix 2, Section 2-2 (B). The minimum cash investment is based on the total purchase price as determined below, plus any other allowable fees and charges allowed to be financed into the loan. The upfront insurance premium may then be added to the base loan amount, not to exceed the maximum loan limit.

        - The appraised value of an already developed lot

        - The purchase price of the lot plus development costs

**C. <u>Loan Term</u>.** The maximum term for a lot loan may not exceed 15 years and 32 days from the date of the loan.

## 10-3 <u>COMBINATION LOAN</u>

A combination loan is used to purchase a manufactured home unit and a parcel of real estate on which the unit will be placed in a single loan transaction. The lot must comply with HUD's requirements for a suitable manufactured home site (See Appendix 5-2). A combination loan may also be used to combine the refinancing of an existing manufactured home loan with the acquisition of a lot, or the refinancing of a lot loan with the acquisition of a manufactured home unit.

A. **Eligibility Requirements.** In addition to the guidelines specified in Appendix 2-1, the following requirements apply to combination lot loans:

- **Lot Ownership.** Title for the lot must be held in fee simple, except when the lot consists of a share in a cooperative association which owns and operates the manufactured home community.

- **Principal Residence Only.** The manufactured home must be placed on the lot and occupied as the borrower's principal residence within six months of the date of the loan.

- **Home Ownership.** Title for the manufactured home unit must be held in fee simple if the manufactured home is classified as realty.

B. **Maximum Loan Limit.**

- **Maximum Loan Limit.** The loan amount may not exceed the maximum loan limit set by HUD. HUD publishes the maximum loan limits for Title I lot loans on its web-site at www.hud.gov. The maximum loan limits may be adjusted following HUD's annual review of manufactured housing price data collected by the Census Bureau. Areas designated as high cost will have higher maximum loan limits.

- **Maximum Loan Calculation.** The maximum loan amount for a specific loan transaction is further limited by the cost or value of the particular lot and home as follows:

- **Down Payments.** The borrower must make the minimum cash investment as a down payment based on the allowable LTV as shown in Appendix 2, Section 2-2 (B). The minimum cash investment is based on the purchase price of the manufactured home unit and lot. If a borrower already owns a manufactured home or a lot on which a manufactured home is to be placed, the borrower's equity in such home or lot may be accepted in lieu of a full or partial cash down payment. When equity in a home or lot is used to meet any portion of the down payment requirement, the loan may not allow any cash back to the borrower. The upfront insurance premium may then be added to the base loan amount, not to exceed to maximum loan limit.

C. **Loan Term.** The maximum loan term for a single unit manufactured home and lot combination loan may not exceed 20 years and 32 days from the date of the loan. The maximum loan term for a multi-unit manufactured home and lot combination loan may not exceed 25 years and 32 days from the date of the loan.

**10-4 SECURITY**

General security requirements are presented in Appendix 2-6. In addition, the security must attach to the real property as well as to the manufactured home. The security instrument must be in proper form and properly recorded to create a valid and enforceable lien against the property should the lender need to obtain a marketable, legal title to the property in case of foreclosure.

**10-5 APPRAISALS**

The appraisal of a manufactured home classified as personal property must be obtained as per the requirements outlined in Appendix 8-9, C. When the manufactured home and lot are classified as real property, lenders must use an FHA Title II Roster appraiser that can certify to prior experience appraising manufactured homes as real property.

Fees for real property appraisals will be negotiated between the lender and the appraiser. The fee may be passed on to the borrower and may be financed, subject to the maximum loan limit described above.

**10-6 FEES AND CHARGES**

In addition to the fees and charges detailed in Appendix 2-4, the following items are permitted to be paid by the borrower, but may not be financed into the Title I loan:

- Title insurance costs.
- Survey costs.
- Payments into a tax escrow account for the current year.

**10-7 SERVICING**

Servicing of lot loans and combination loans are subject to the guidelines stated in Appendix 8, with the following exceptions:

- Upon acceleration of the maturity on a defaulted lot loan or combination loan, the lender must proceed against the loan security by foreclosure, not repossession.
- Once the lender obtains the property through foreclosure, the manufactured home and lot securing a combination loan must be sold in a single transaction and the manufactured home may not be removed from the lot, without prior approval from HUD.

**10-8 CLAIM SUBMISSION AND PAYMENT**

Appendix 10

Claim submissions and payments for lot loans and combination loans are subject to the same guidelines as stated in Appendix 9, with the following addition. Claim submissions and payments may include 90 percent of the sum of the following amounts:

- State or local real estate taxes, pro-rated to the date of disposition
- Ground rents, pro-rated to the date of disposition of the property
- Municipal water and sewer fees, pro-rated to the date of disposition of the property
- Liens, pro-rated to the date of disposition of the property
- Special assessments which are noted on the loan application or which become liens after the insurance is issued, pro-rated to the date of disposition of the property
- Premiums for hazard insurance on the manufactured home, pro-rated to the date of disposition of the property
- Transfer taxes required by any State or local government

# APPENDIX 11
# REFINANCED LOANS

## 11-1 GENERAL POLICY

**A. Title I Refinance.** A previously insured Title I manufactured home loan, lot loan, or combination loan may be refinanced to a new Title I insured loan.

1. **Upfront Premium Charge.** Every Title I loan insured under the provisions of the FHA Manufactured Housing Loan Modernization Act of 2008 requires payment of an upfront insurance premium charge.

2. **Streamline Refinance.**

   A Streamline Refinance of an existing Title I insured loan is limited to the cost of prepaying the existing loan, subject to the conditions listed below in 11-3. The streamline process does not require new credit underwriting.

3. **Regular Refinance.**

   An existing Title I insured manufactured home loan may be refinanced with an advance of additional funds to purchase a manufactured home lot. Similarly, an existing Title I insured lot loan may be refinanced with an advance of additional funds to purchase a manufactured home unit. In both cases, the original loan must not be in default and may be refinanced only for the original borrower(s). This type of refinance will result in a new combination loan. Note: See Appendix 10 for additional information regarding Lot Loans and Combination Loans.

   Since the refinance of a manufactured home loan or lot loan will result in a new combination loan increasing the loan amount, the combination loan will be subject to the underwriting guidelines in Appendix 4. The lender must also complete any other applicable processing requirements. A new Placement Certificate is required only if the transaction includes the addition of a manufactured home unit.

**B. Conventional Refinance.**

An existing conventional manufactured home loan, lot loan, or combination loan that was not insured by HUD may be refinanced with a new Title I insured loan under the following conditions:

- The original loan may not be in default.
- A new appraisal is required to determine the eligible loan amount
- The new loan must retain the original borrowers
- The loan is subject to all underwriting guidelines stated in Appendix 4

## 11-2 MAXIMUM LOAN AMOUNTS

The loan amount may not exceed the maximum loan limit permitted for the loan type. The maximum loan amount is further limited based on the type of refinance as follows:

**A. Streamline Refinance.** The total principal amount for a loan made to refinance an existing Title I insured manufactured home loan, lot loan, or combination loan may not exceed the cost of prepaying the outstanding balance on the original loan, plus the addition of the upfront insurance premium. A streamline refinance is subject to the conditions listed below in 11-3.

**B. Refinance of a Home Loan or Lot Loan to Add a Home or Lot to the Loan.**

- **Refinance to Add a Home.** The maximum combination loan amount is subject to the guidelines in Appendix 10-3 B, except for the amount attributed to the lot. The lot portion of the calculation must be based on the cost of prepaying the existing lot loan, not the appraised value or original purchase price value, plus the cost of the upfront insurance premium charge.
- **Refinance to Add a Lot.** The maximum combination loan amount is the sum of the cost of prepaying the existing loan on the manufactured home, plus the lesser of the purchase price of the lot or the appraised value of the lot, plus the cost of the upfront insurance premium charge.

**C. Conventional Loan Refinance.**

1. **Regular Refinance.** The total principal amount for a loan made to refinance an existing uninsured manufactured home loan, lot loan or combination loan may not exceed the lesser of the cost of prepaying the existing loan or the appraised value of the property, plus the cost of the upfront insurance premium charge, not to exceed the maximum loan limit.

2. **Refinance to Add a Home.** The maximum combination loan amount is subject to the guidelines in Appendix 10-3 B, plus the cost of the upfront insurance premium charge, not to exceed the maximum loan limit.

3. **Refinance to Add a Lot.** The maximum combination loan amount is the lesser of the cost of prepaying the existing loan on the manufactured home, plus the purchase price of the lot or the appraised value of the home and lot as determined by a HUD-approved appraisal. The cost of the upfront insurance premium charge may be added to the loan, not to exceed the maximum loan limit.

## 11-3 STREAMLINE REFINANCE CONDITIONS

*****Streamline Refinance loans are only allowed on existing FHA Title I insured loans.***

A. **Lender of Record Only.** Only the lender who owns the Title I loan according to HUD's records, may streamline refinance an existing Title I loan. Another lender would need to obtain the loan from the current lender of record through sale, assignment, or transfer in order for the loan to be eligible for a streamline refinance transaction. The sale, assignment or transfer of the loan must be reported to HUD as required in Appendix 8-3 prior to the origination of a refinance transaction by the new lender.

B. **Loan in Default.** A existing Title I loan that is in default may be refinanced, but not for an amount greater than the original principal balance of the loan. The upfront insurance premium may be added, not to exceed the maximum loan limit.

C. **Co-maker or Co-signer on Loan.** The lender must require the co-makers or co-signers on the original note to be obligated on the refinance note. The lender would need to obtain approval from HUD to release a co-maker or co-signer from liability on the note.

D. **Previous Assumption.** A loan that was assumed may be refinanced only if the original borrower and any intervening assumptors were released from liability, either at the time the loan was assumed or through permission from HUD.

E. **Refinancing Pre-program Revision Loans.** Refinancing a loan that was originated under the Title I program prior to the implementation of the FHA Manufactured Housing Loan Modernization Act of 2008 may be refinanced under the original program. Refinances of this type are subject to the guidelines as found in HUD Handbook 1060.2 REV. 6.

F. **Refinancing Pre-program Revision Loans to Revised Program Loan.** A lender may streamline refinance a loan that was insured by HUD prior to HUD's implementation of the FHA Manufactured Housing Loan Modernization Act of 2008 with the new loan subject to all provisions of the reformed Title I program.

The prior loan will be removed from the lender's portfolio insurance reserve account and will be individually insured subject to the upfront insurance premium and the annual premium at specified in Appendix 7.

HUD's insurance of the new loan will be "incontestable" once HUD endorses the new loan for insurance. HUD will reduce the lender's insurance reserve account in an amount equal to 10 percent of the unpaid principal balance of the loan being refinanced. If the lender does not have sufficient reserves to cover this reduction, then the loan may only be refinanced under the Pre-program Revision guidelines as stated above.

## 11-4 MAXIMUM LOAN MATURITIES

**A. New Loan Term.** The maximum term for the new loan may not exceed:

- Manufactured Home Loan - 20 years and 32 days
- Lot Loan -15 years and 32 days
- Combination Lot and Single Unit Manufactured Home -20 years and 32 days
- Combination Lot and Multi-unit Manufactured Home – 25 years and 32 days

**B. Limit on Total Time Period.** In the case of a refinance of a previous Title I loan, the total time period from the date of the original loan to the final maturity of the refinanced loan shall not exceed the maximum term permitted for a new loan of the same type.

## 11-5 DOCUMENTATION REQUIREMENTS

**A. Note and Security Requirements.** Refinancing requires the borrower(s) to execute a new note. The new note must comply with the same requirements as an original Title I loan and must be properly secured. The lender must obtain and record a new security instrument and should assure a release of the original lien unless State law permits a renewal and extension of the original lien.

**B. Other Documents.** A new "Notice of HUD's Role" must be issued and acknowledged (See Appendix 5-1). Copies of all documents pertaining to the original Title I loan must be retained in the loan file of the refinanced loan.

## 11-6 INSURANCE PROCESSING

Refinanced loans must be submitted to HUD for insurance endorsement within 30 days after loan disbursement as outlined in Appendix 6. When reporting a refinance of a prior Title I loan, lenders must supply information on the original loan so that HUD may terminate the Title I insurance on the original loan. HUD will also pro-rate any unpaid installments on the insurance charge between the old loan and the new loan. Lenders are cautioned not to erroneously submit a refinanced loan as a new loan.

# APPENDIX 12
# RESOURCES AND ASSISTANCE

## 12-1 OVERVIEW

HUD provides a variety of on-line resources that can be accessed via HUD's homepage, www.hud.gov. Information available on the web-site includes detailed information regarding HUD's programs and activities, as well as access to view and print forms, handbooks, Title I letters, and notices.

FHA-approved lenders access the FHA Connection web-site to send and receive information for FHA loans.

In addition to the web-based self-service resources, HUD personnel are available to assist lenders. The primary organizations responsible for the Title I program are the Home Mortgage Insurance Division within the Office of Single Family Program Development in Washington DC, which is responsible for Title I program policy and the Financial Operations Center in Albany, NY, which is responsible for administering the Title I program.

## 12-2 FORMS AND SUPPLIES

**A. Forms.** Forms used for processing Title I manufactured home loans are listed below. These forms may be obtained from HUD's web-site at www.hud.gov/hudclips.

| | |
|---|---|
| HUD-27030 | Title I Transfer of Note Report. This form is used to notify HUD about a transfer of insured loans between lenders and to affect the transfer of insurance coverage to the new owner of record. See Appendix 8-3 for additional information. |
| HUD-55013 | Dealer Application. Application for dealer to be approved to process manufactured home loans under a particular lender. See Appendix 3-4 for additional information. |
| HUD-55014 | Warranty for New Manufactured Home. Form that must be executed by the manufacturer providing the borrower with a one year warranty on a new manufactured home. See Appendix 2-1 for additional information. |
| HUD-56001-MH | Credit Application for Manufactured (Mobile) Home. HUD required loan application form. For additional information, see Appendix 4-1. |
| HUD-56002-MH | Manufactured Home Placement Certificate. The form must be completed and signed by the dealer and the borrower to document that the home was properly delivered and installed. See Appendix 5-4 for additional information. |

| | |
|---|---|
| HUD-637 | Title I Claim for Loss. A lender must use this form to request an insurance claim payment from HUD. See Appendix 9-2 for additional information. |
| HUD-646 | Worksheet for Reconcilement of Insurance Charges from the Title I Monthly Statement. This is an optional worksheet form to help a lender reconcile HUD's monthly annual premium charge billing statement with the lender's records. The form is included with the billing statement. See Appendix 7-4 for additional information. |
| SF-3881 | ACH Vendor/Miscellaneous Payment Enrollment Form. The lender must complete this form to set up Electronic Funds Transfer (EFT), which enables HUD to comply with the mandate to pay insurance claims electronically. See Appendix 9-8 for additional information. |

**B. Claim Filing Supplies.** HUD offers claim binders and claim binder inserts to assist lenders with organizing and filing claims.

1. **Claim Folders.** A lender can obtain claim binders from the HUD Direct Distribution Center. The Direct Distribution Center will need the Item ID number (2089), the number of claim binders requested, and the lender's mailing address. The Direct Distribution Center may be contacted as shown below:

   - Phone (800) 767-7468.

   - Mail or fax a written request to:

     U.S. Department of Housing and Urban Development
     Customer Service Center
     451 Seventh St., SW, Room B-100
     Washington, DC 20410
     Fax Number: (202) 708-2313

   - Visit www.hud.gov/offices/adm/dds.

2. **Claim Inserts.** Claim binder inserts are obtained directly from the Financial Operations Center. The Financial Operations Center will need the number of claim binder insert sets requested and the lender's mailing address. Claim binder inserts may be ordered as shown below:

   - Call the Claims HelpLine, (800) 669-5152 extension 2836.

- Mail or fax a written request:

  U.S. Department of Housing and Urban Development
  Attn: Claim Inserts
  52 Corporate Circle
  Albany, New York 12203
  Fax Number: (518) 464-4298

- Send an email to title_one_help@hud.gov.

## 12-3 ADDITIONAL HANDBOOK RESOURCES

The handbooks listed below provide information on other requirements applicable to the Title I manufactured home loan program. These and other HUD handbooks can be viewed and printed on HUD's web-site at www.hud.gov/hudclips.

- Handbook 1060.2, Title I Property Improvement and Manufactured Home Loan Regulations, 23 CFR Parts 201 and 202. This handbook provides the policies and guidelines for manufactured home loans originated prior to HUD's implementation of the FHA Manufactured Housing Loan Modernization Act of 2008.

- Handbook 4700.2, Title I Lender Approval Handbook. This handbook provides the requirements for lending institutions to participate in HUD's Title I Property Improvement and Manufactured Home Loan programs.

- Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties. This handbook provides underwriting guidelines that apply to HUD's various Title II single family mortgage insurance programs. Guidance from this handbook is to be used, as a secondary source only, when Title I sources do not specifically address an underwriting issue.

## 12-4 TITLE I LETTERS AND MORTGAGEE LETTERS

HUD issues Title I Letters to notify lenders regarding matters related to the FHA Title I Manufactured Home and Property Improvement program, including policy and guidance changes and/or clarifications.

Similarly, HUD issues Mortgagee Letters to lenders regarding matters related to the FHA Title II Single Family Mortgage Insurance programs, including policy and guidance changes and/or clarifications. A Title I lender should reference the Title II Mortgagee Letters for guidance if a particular issue is not specifically addressed in Title I sources.

A. **Title I Letters and Mortgagee Letters.** A Title I Letter or Mortgagee Letter may be viewed and printed from HUD's web-site at www.hud.gov/hudclips or by using the link available via the FHA Connection. Lenders should check these web-sites on a regular basis for postings of new letters.

**12-5 FHA Connection**

The FHA Connection is an interactive web-based system that gives a lender real time access to data from many of HUD's automated systems. The FHA Connection is HUD's main tool for communicating with Title I lenders during the loan insurance process. This communication includes both receiving loan insurance information from lenders and providing feedback and insurance status to lenders.

**A. Features.** Among the features of the FHA Connection, a lender can:

- Change Institutional Corporate Data. Material changes in lender information, such as name, address, principals, and contact information, must be kept up to date through FHA Connection.
- Process a new Title I loan for insurance.
- Download the current monthly Title I annual premium charges billing statement.
- Pay Title I premium charges (upfront and annual.)
- Inquire about the status of a Title I claim submission.
- Review a detailed breakdown of a claim payment.
- Review reasons a claim was denied.
- Authorize a loan servicer to use the FHA Connection to service the lender's loan portfolio.

**B. Access to FHA Connection.** Access to the FHA Connection requires a User-ID issued by HUD. For information on how to obtain a User-ID for FHA Connection and how to use FHA Connection's features for Title I, call the HUD Financial Operations Center Premium HelpLine at (800) 669-5152 extension 2832, or e-mail the Financial Operations Center at *Title_One_Help@hud.gov*.

After signing into the FHA Connection, a lender can find the Title I menu by selecting "Single Family FHA" followed by "Property Improvement/Manufactured Housing".

**12-6 HUD CONTACTS FOR THE TITLE PROGRAM**

**A. Lender Approval and Recertification Division.** Located in HUD Headquarters in Washington, D.C., the Lender Approval and Recertification Division is responsible for reviewing a lender's application and qualifications to participate in the Title I program. The Lender Approval and Recertification Division also process lender recertification's and material changes in corporate information. This division will also determine the geographic area in which a lender may operate. For assistance call (202) 708-3976, or send a fax to (202) 755-0303. The mailing address is:

U.S. Department of Housing and Urban Development
Lender Approval and Recertification Division
451 7th Street, SW, Room B-133/P-3214
Washington, DC 20410

**B. <u>Single Family Home Mortgage Insurance Division</u>.** Located in HUD Headquarters in Washington, D.C., the Single Family Home Mortgage Insurance Division is responsible for Title I program policy including issuing regulations, handbooks, and Title I Letters. The Single Family Home Mortgage Insurance Division also reviews appeals and waivers for denied claims. For assistance call (202) 708-2121, or send a fax to (202) 708-401-8951. The mailing address is:

U.S. Department of Housing and Urban Development
Home Mortgage Insurance Division
451 Seventh St., SW, Room 9266
Washington, DC 20410

**C. <u>General Ledger Division</u>.** Located in HUD Headquarters in Washington, D.C., the General Ledger Division processes the Electronic Funds Transfer (EFT) application form from lenders that enables HUD to make electronic claim payments. For assistance call (202) 708-0143, or send a fax to (202) 708-4776. The mailing address for submitting EFT forms is:

U.S. Department of Housing and Urban Development
General Ledger Division/Cash Management
P.O. Box 44815
Washington, DC 20026

**D. <u>Quality Assurance Division.</u>** Located in HUD Headquarters in Washington, D.C. and within HUD's four Homeownership Centers, the Quality Assurance Division monitors lenders, dealers, and borrowers for program compliance. The Quality Assurance Division also processes reports of non-compliance that must be reported by lenders such as misuse of proceeds, a borrower falsifying a document, or a dealer not honoring a warranty. For assistance call (202) 708-2830, or send a fax to (202) 708- 9868. The mailing address is:

U.S. Department of Housing and Urban Development
Quality Assurance Division
451 Seventh St., SW, Room P3214
Washington, DC 20410

**E.** **<u>Financial Operations Center.</u>** The Financial Operations Center (FOC), located in Albany, New York, administers the Title I program. The mailing address for the FOC is:

U.S. Department of Housing and Urban Development
Financial Operations Center
52 Corporate Circle
Albany, New York 12203

To assist with mail handling, a lender should use an attention line to identify the appropriate FOC branch or related subject of the correspondence.

1. **<u>Processing and Claims Branch</u>**. The Processing and Claims Branch handles: HUD processed loans during a lender's initial review period, pre-endorsement reviews including issuing Loan Insurance Certificates and Notices of Non-endorsement/Return, and post-endorsement technical reviews. This branch also processes Title I insurance claims.

   For assistance or questions regarding loan processing or claims, lenders may contact the Processing and Claims HelpLine by calling (800) 669-5252 extension 2836, by sending a fax to (518) 464-4298, or by emailing *title_one_help@hud.gov*.

2. **<u>Premiums Branch.</u>** The Premiums Branch handles tasks associated with the insurance premium charges such as issuing and reconciling annual premium charge bills and transferring insurance coverage to a new loan holder after a loan sale. For assistance or questions regarding insurance premium charges contact the Premiums HelpLine by calling (800) 669-5252 extension 2832, by sending a fax to (518) 464-4298, or emailing *title_one_help@hud.gov*.

3. **<u>Asset Recovery Division.</u>** The Asset Recovery Division services Title I defaulted loan notes assigned to HUD. After a Title I insurance claim is paid, the lender should forward all borrower correspondence to this division using the FOC address provided above. For assistance or questions regarding asset recovery, contact the Asset Recovery Division by calling (800) 669-5152, by sending a fax to (518) 464-4299, or emailing *debt_servicing_help@hud.gov*.

   After a Title I insurance claim is paid by HUD, the lender must forward to HUD any payments it receives on the subject loan. All loan payments should be sent to the HUD Title I lockbox. The remittance must be endorsed to *U.S. Department of Housing and Urban Development* and should be marked with the nine-digit Title I ***Claim Numbe***r. The claim number may be found on FHA Connection by going to the Title I menu (see Appendix 12-5) and selecting "Inquire about a Claim Submission". After entering the Title I ***Case Number***, the results screen will display the claim number. The lender may also contact the Asset Recovery

Division for assistance with determining the correct claim number. The lockbox address for payments is:

U.S. Department of Housing and Urban Development
P.O. Box 105664
Atlanta, GA 30348-5664

**RIDER – UPFRONT INSURANCE PREMIUM**

This rider should be executed for all loans originated by a dealer. Since FHA does not supply this form, the lender will need to print this form on their letterhead. The form must be signed by all borrowers obligated on the loan.

*RIDER – UPFRONT INSURANCE PREMIUM*

*This rider is made this ____ day of ____________, and is incorporated into and shall be deemed to amend and supplement the retail installment sales contract of the same date given by the undersigned borrower(s) to (insert name of dealer) to finance the purchase of (insert description of the manufactured home).*

*The lender to whom this retail installment sales contract (the loan) has been assigned will be insured against loss in the event of a borrower default by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). FHA charges the lender an upfront insurance premium at the time the loan is insured and annual premiums during the term of the loan. The lender is authorized by FHA to collect such premiums from the borrower(s), and this rider constitutes the consent of the borrower(s) to reimburse the lender for such premiums, as follows:*

***CHECK APPLICABLE BOX***

_____ ***Upfront Insurance Premium Fully Financed.***

*The upfront premium is (insert number) percent of $ ___________, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium, when added to the amount financed, results in a new amount financed that is equal to or less than FHA's maximum loan amount, and therefore the upfront premium is financed in its entirety with this loan. The new amount financed is $(insert original amount financed + upfront premium). This results in an increased monthly payment. The revised monthly payment is $(insert new amount).*

_____ ***Upfront Insurance is Partially Financed.***

*The upfront premium is (insert number) percent of $___________, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium, when added to the amount financed, results in a new amount financed that exceeds FHA's maximum loan amount, and therefore the upfront premium is partially financed with this loan, to the extent that it results in a new amount financed equal to the FHA maximum loan amount. Borrower(s) will pay the lender the balance of the upfront premium... The new amount financed is $(insert original amount financed + financeable amount of upfront premium). As a result of the increase in the amount financed, the monthly payment is $(insert new amount).*

_____ ***Upfront Insurance Cannot be Financed.***

*The upfront premium is (insert number) percent of $___________, the amount financed shown on the face of the retail sale installment contract, which equals $(insert number). The upfront premium cannot be financed because the amount financed is equal to FHA's maximum loan amount. Borrower(s) will pay the lender the upfront premium.*

*The annual premiums are based upon the declining balance of the original amount financed, and thus will change every year. Borrower(s) will pay 1/12 of each annual premium each month in addition to the monthly loan payment set forth in paragraph (a). The initial monthly premium payment is $(insert number). The lender will advise the borrower(s) of each annual change in the monthly premium payment.*