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FHA Single Family Housing Policy Handbook

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- I. DOING BUSINESS WITH FHA
- A. FHA Lenders and Mortgagees
- 1. Types of Program Approvals

I. DOING BUSINESS WITH FHA

2 A. FHA LENDERS AND MORTGAGEES

- 3 The Doing Business with FHA section in this FHA Single Family Housing Policy Handbook (SF
- 4 *Handbook*) covers Federal Housing Administration (FHA) approval and eligibility requirements
- 5 for both Title I Lenders and Title II Mortgagees, as well as other FHA program participants. For
- 6 the purposes of this section, Doing Business with FHA, the term "Mortgagee" is used throughout
- 7 for all types of FHA approval (both Title II Mortgagees and Title I Lenders) and the term
- 8 "Mortgage" is used for all products (both Title II Mortgages and Title I Loans), unless otherwise
- 9 specified.

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- A Mortgagee must fully comply with all of the following approval and eligibility requirements in
- order to be approved by FHA to participate in the origination, underwriting, closing,
- endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II
- 13 Mortgages.
- 14 The requirements outlined below in subsections 1 through 9 apply to both Single Family (one-to
- 15 four-units) and Multifamily Mortgagees. If there are any exceptions or program-specific
- requirements that differ from those set forth below, the exceptions or alternative program
- 17 requirements are explicitly stated or hyperlinked to the appropriate guidance. Terms and
- 18 acronyms used in this SF Handbook have their meanings defined in the Glossary and Acronyms
- or in the specific section of the SF Handbook in which the definitions are located.

20 1. Types of Program Approvals

- 21 FHA approves Mortgagees separately for participation in the Title I and Title II programs. FHA
- 22 approval is conveyed to a specific legal Entity and cannot be shared with or extended to other
- 23 Entities, such as a parent or subsidiary, or any Affiliates of the Mortgagee.

a. Title I

25

i. Definitions

- A Title I Lender is a financial institution that (a) holds a valid Title I Contract of
- Insurance and is approved by FHA, or (b) held a Title I contract that has been terminated
- or suspended but remains responsible for servicing or selling the Title I Loans that it
- 29 holds and is authorized to file insurance claims on these Loans.
- Contract of Insurance is the term applied to a Title I Lender's authority to originate,
- 31 underwrite, hold and service Title I Loans.

32 ii. Standard

- A Title I Lender may be approved to originate, underwrite, close, endorse, service,
- purchase, hold, or sell Loans under the Property Improvement program and/or the
- 35 Manufactured Home Loan program. Unless otherwise specified, Title I Lenders must

	A. 2.	FHA Lenders and Mortgagees Types of Approved Mortgagees
1 2		meet the same approval requirements and follow the same procedures as Title II Mortgagees.
3	2.	Types of Approved Mortgagees
4	3.	Application and Eligibility Requirements for Approval
5	4.	Branch Offices
6	5.	Supplemental Mortgagee Authorities
7		a. Title II Direct Endorsement Authority
8		b. Title II Single Family Lender Insurance Authority
9		c. Title I Manufactured Housing Loan Direct Endorsement Authority
10		i. Principal/Authorized Agent
11		(A) Definition
12 13 14		A Principal/Authorized Agent Relationship is one in which a Mortgagee with Unconditional Direct Endorsement (DE) authority permits another DE-approved Mortgagee to underwrite Mortgages on its behalf.
15		(B) Standard
16		A principal/authorized agent relationship is not applicable to Title I Loan programs.
17		ii. Sponsor/Sponsored Third-Party Originator Relationship
18		(A) Definition
19 20 21		A Sponsor/Sponsored Third-Party Originator (TPO) Relationship is one in which a Title I Lender (acting as the "sponsor") permits another Entity to act as an originator and originate Title I-insured Direct Loans on behalf of the Lender.
22		(B) Standard
23		A Title I Lender may sponsor a TPO only in connection with the <u>Direct Loan</u> process
24 25		The TPO may not be a <u>Title I Manufactured Home Dealer</u> or <u>Title I Property</u> <u>Improvement Dealer</u> , who are subject to requirements for supervision and monitoring

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I. DOING BUSINESS WITH FHA

meets all state license, registration, or equivalent approval requirements;

A Title I Lender must ensure its sponsored TPO:

I. DOING BUSINESS WITH FHA

A.]	FHA	Lenders	and	Mortgagees
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5.	Supplemental	Mortgagee	Authorities
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1 2 3 4 5	 has officers, partners, directors, principals, managers, supervisors, loan processors, and loan originators that are not ineligible under 24 CFR § 202.5(j); and does not purchase or hold FHA-insured Loans or Mortgages and may not close Loans or Mortgages in their own name.
6 7 8	Each sponsor is responsible to HUD for the actions of its sponsored TPOs or Lenders in originating Loans or Mortgages, unless applicable law or regulation requires specific knowledge on the part of the party to be held responsible. FHA does not
9	approve TPOs.
10	Exception for Title I Lenders Acting as a Sponsored Third-Party Originator
11 12	A Title I Lender may permit its sponsored TPO to close Loans in their own name if the TPO is also a Title I Lender.
13	(C) Required Documentation
14 15 16	The Title I Lender reporting the Loan for insurance in FHAC must provide the following information: • Employer Identification Number (EIN)
17 18 19	 Name of Sponsored TPO Loan Officer Name FHA Lender ID Number for TPO if also FHA Approved
20	iii. Direct Endorsement Authority for Property Improvement Loan
21 22	FHA's Direct Endorsement delegated authority does not apply to the Title I Property Improvement Loan program.
23 24 25 26 27	Lenders originate Property Improvement Loans, and underwrite, close and disburse before reporting the Loan for Title I case number assignment and insurance. HUD does not require the Lender to submit loan documents to HUD prior to or at the time of reporting the Loan. Lenders submit loan documents only for claim filing or any Post-Endorsement Technical Review (PETR).
28	(A)FHA Lender Approval
29 30	A Lender must have <u>FHA approval</u> as a Title I Supervised, Nonsupervised, or Government Lender to be eligible to participate in the Title I program.
31	(B) Underwriter Qualifications
32	The Lender must approve loan underwriters based on a qualifications assessment.

I. DOING BUSINESS WITH FHA

- A. FHA Lenders and Mortgagees
- 5. Supplemental Mortgagee Authorities

1	(1) Standard
2	The underwriter must be a full-time employee of the Lender.
3 4 5	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 loan underwriting.
6	(2) Required Documentation
7 8 9 10	The Lender must register each underwriter in FHA Connection (FHAC). By registering the underwriter in FHAC, the Lender certifies that the underwriter meets the necessary qualifications to underwrite Title I Property Improvement Loans.
11	iv. Direct Endorsement Authority for Manufactured Home Loan
12	(A) Scope of Authority
13 14 15	Approval to participate in FHA's Direct Endorsement (DE) Program permits a Lender to underwrite Title I Single Family Loans without FHA's prior review and submit them directly for FHA insurance endorsement.
16	(1) Definitions
17	(a) Conditional DE Authority
18 19 20	Conditional DE Authority is the authority of a Lender that has applied for and received basic FHA Lender approval as a Supervised, Nonsupervised, or Government Lender, and has not entered or completed the Test Case phase.
21	(b) Test Case Phase
22 23 24 25 26 27 28	The Test Case Phase is when a Lender must submit each case binder to HUD for a pre-closing review. If the Loan passes the review, HUD will issue permission to close the Loan. Once HUD determines that the Lender has sufficient competence, HUD will grant the Lender permission to close Loans without a pre-closing review. However, a minimum of 10 Loans must go through the pre-closing review process before HUD will waive the pre-closing review process.
29	(c) Unconditional DE Authority
30 31	Unconditional DE Authority permits a Lender to underwrite and close Title I Loans prior to submitting them to FHA for FHA insurance endorsement.

1	(2) Standard
2	To obtain Unconditional DE authority, the Lender must successfully complete the
3	Test Case phase, which permits FHA to evaluate the Lender's qualifications,
4	experience, and expertise to underwrite Loans that satisfy FHA requirements.
5	(B) FHA Lender Approval
6 7	A Lender must have <u>FHA approval</u> as a Title I Supervised, Nonsupervised, or Government Lender to be eligible to participate in the DE Program.
8	Lenders approved as <u>Investing Lenders</u> (see the Investing Mortgagee section in the
9 10	Doing Business with FHA section of the <i>SF Handbook</i>) are not eligible to participate in the DE Program.
11	(C) Underwriter Qualifications
12	The Lender must approve underwriters based on the qualifications assessment.
13	(1) Standard
14	The underwriter must be a full time employee of the Lender.
15	The underwriter must be a reliable and responsible professional who is skilled in
16 17	loan evaluation and is able to demonstrate knowledge and experience regarding principles of retail installment sales and loan underwriting.
18	(2) Required Documentation
19	The Lender must register each underwriter in FHA Connection (FHAC). By
20	registering the underwriter in FHAC, the Lender certifies that the underwriter
21	meets the necessary qualifications to underwrite Title I Manufactured Home
22	Loans.
23	(D) Exception for Certain Lenders Created by Merger, Acquisition, or
24	Reorganization
25	Unconditional DE authority may be granted without the need for the Test Case phase
26	to surviving FHA-approved Lenders or to new Lenders resulting in new FHA Lender
27	IDs, so long as the following criteria are met:
28	 either or both institutions were unconditionally DE-approved prior to the
29	merger, acquisition, or reorganization; and
30	• if both institutions are unconditionally DE-approved, then the management
31	and staff of at least one of the Lenders involved with the Lender's
32	Unconditional DE authority prior to the merger, acquisition, or reorganization
33	must continue to exercise those responsibilities for the new Lender. If only
34	one institution is unconditionally DE-approved, then the management and

Δ	FHA	Lenders	and	Mortgagees
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5.	Supplemental	Mortgagee .	Authorities
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1 2 3	staff involved with that Lender's Unconditional DE authority prior to the merger, acquisition, or reorganization must continue to exercise those responsibilities for the new Lender.
4 5	v. Application and Approval for Direct Endorsement Authority for Manufactured Home Loans
6	(A) First-Time Applicants
7	(1) Application
8	(a) Request to Enter into the Test Case Phase
9 10 11	The Lender must submit a written application for Unconditional DE authority to the Financial Operations Center (FOC), Attention: Premiums (Title I Insurance Processing) Branch. To be approved to participate in FHA's Title I
12 13	DE Program, each Lender must satisfactorily underwrite sufficient pre-closing Test Cases, as prescribed by HUD.
14	(b) Required Documentation
15 16 17	To apply for DE Title I authority, the Lender must submit a letter to the FOC requesting entry into the Test Case phase. The letter must contain the Lender's home office address and 10-digit Lender ID and be signed by a Corporate
18	Officer.
19	(2) Test Case Phase
20 21	The Lender must submit at least 10 Title I Test Cases to the FOC for review and final approval <u>before closing</u> and disbursing loan funds.
22 23	The Lender must submit loan documentation to the attention of MH Pre-Closing Review at the <u>FOC</u> .
24	(3) Approval Decision
25	(a) Approval of Unconditional DE Authority
26	The FOC will review these cases for compliance with origination and
27 28	underwriting requirements and issue a written approval or denial to the Lender.
29 30	The Lender may only close and submit for insurance endorsement any Loan that receives written approval.
31 32 33	HUD will approve the Lender for Unconditional DE when HUD determines that the Lender is consistently submitting Loans that satisfactorily meet Title I program requirements.

Handbook 4000.1 – Title I Sections

I. DOING BUSINESS WITH FHA

- A. FHA Lenders and Mortgagees
- 5. Supplemental Mortgagee Authorities

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I. DOING BUSINESS WITH FHA

- A. FHA Lenders and Mortgagees
- 5. Supplemental Mortgagee Authorities

1	(c) Reapplication Following Denial
2	Any Lender who is denied Unconditional DE authority will not be permitted
3	to reapply until it has:
4	 demonstrated appropriate remedial education or action;
5	 supplied evidence to support such action; and
6	• waited a minimum of 180 Days from the date of final agency action.
7	(B) Applications from Lenders Created by Merger, Acquisition or
8	Reorganization
9	(1) Standard
10	The Lender must submit a written application for Unconditional DE authority to
11	the FOC.
12	(2) Required Documentation
13	The Lender's DE application must contain the following:
14	 a letter signed by a Corporate Officer requesting Unconditional DE
15	authority that specifies:
16	o the FHA-approved and non-approved Entities involved in the merger,
17	acquisition, or reorganization;
18	 which Entity is the surviving Entity; and
19	o the effective date of the merger, acquisition, or reorganization; and
20	 supporting documentation evidencing that the Lender meets the exception
21	criteria detailed above.

- I. DOING BUSINESS WITH FHA
- **B.** Other Participants
- 1. Appraisers

B. OTHER PARTICIPANTS

2 1. Appraisers

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- 3 a. Real Estate Appraisers
- 4 b. Chattel Appraisers (for Title I Loans)
- 5 i. Definitions
- 6 Chattel Appraiser refers to an appraiser who observes, analyzes, and reports the physical and economic characteristics of Chattel and provides an opinion of value to FHA.
- 8 Chattel refers to tangible, movable Personal Property that is not Real Property.
 - ii. Standard
 - To be eligible to appraise Chattel, the Chattel Appraiser must be:
 - board certified as a Manufactured Housing Valuation (MHV) appraiser. MHV
 appraisers are certified by the American Association of Real Estate Schools and
 Colleges, and trained to use the National Appraisal System (NAS), which is
 administered by the National Automotive Dealers Association's (NADA) Guides;
 or
 - a certified real estate Appraiser who is listed as active on the <u>FHA Appraiser Roster</u>, and certifies on each appraisal that the Appraiser has experience and competence in appraising Manufactured Homes where ownership interest is Chattel (or Personal Property).
 - In addition, the Chattel Appraiser must not be:
 - suspended, debarred, or otherwise excluded; and
 - listed on HUD's <u>Limited Denial of Participation (LDP) List</u>, HUD's <u>Credit Alert Verification Reporting System (CAIVRS)</u>, or subject to any current loss of standing or suspension as a certified Appraiser in any State. A State refers to any State of the United States, Puerto Rico, the District of Columbia, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the United States Virgin Islands.
 - (A) Competency Requirement
- The Chattel Appraiser must be knowledgeable of the <u>Uniform Standards of Professional Appraisal Practice (USPAP)</u> and FHA appraisal requirements. The Chattel Appraiser must meet the competency requirements defined in the USPAP prior to accepting an assignment. The Chattel Appraiser must be knowledgeable in the market where the assignment is located.

1	(B) Licensing Requirement
2 3 4	For appraisals of Manufactured Homes under chattel ownership, if the appraiser is not a certified real estate appraiser listed as active on the FHA Appraiser Roster as above, then the appraiser must provide proof of board certification as an MHV appraiser.
5	(C) Compliance to USPAP
6 7 8	All Chattel Appraisers must comply with the <u>USPAP</u> , including the Competency Rule, when conducting appraisals of Properties classified as Personal Property or Real Property.
9 10 11	All Appraisers providing services involving Manufactured Homes where the property interest is Chattel (or Personal Property) will follow USPAP Standards Seven and Eight when developing and reporting the results of the appraisal.
12	(D) Pending or Settled Actions
13 14 15 16 17 18 19 20	Prior to accepting an assignment from a Lender, the Chattel Appraiser must disclose all lawsuits, administrative complaints, Findings, or reports produced in connection with an investigation, audit, or review conducted by HUD, another federal, state, or local governmental agency, or by any other regulatory or oversight entity with jurisdiction over the Chattel Appraiser, its officers, partners, directors, principals, managers, supervisors, and other agents, that are currently pending or were resolved within two years of the application, including any violations of the Fair Housing Act, 42 U.S.C. §§ 3601-3619.
21	iii. Post-Appraisal Requirements
22 23 24	The Appraiser must comply with the following requirements and restrictions for its FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in this <i>SF Handbook</i> .
25	(A) Compliance with Law
26 27	The Appraiser's performance must comply with all applicable federal, state, and local laws.
28	(B) Appraiser Competency Requirement
29 30 31	The Chattel Appraiser assigned to provide the appraisal must be able to complete an assignment for the property type, assignment type, and geographic location of the subject Property.
32 33 34	The Chattel Appraiser must comply with the USPAP, including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing.

(C) Communications with Appraisers

A Chattel Appraiser must avoid conflicts of interest and the appearance of conflicts of interest. To avoid conflicts of interest and the appearance of conflicts of interest, the Chattel Appraiser must not have substantive communications relating to or having an impact on valuation, including ordering or managing an appraisal assignment with any member of a Lender's loan production staff, any person who is compensated on a commission based on the successful completion of a Loan, or any person who reports to any officer of the Lender who is associated with the loan production staff and process.

The Chattel Appraiser is bound by the Confidentiality Rule of USPAP and may not discuss the value or conclusions of the appraisal with anyone other than the Title I underwriter or FHA staff or their representatives. The Chattel Appraiser may discuss components of the appraisal that influence its quality and value with the Title I underwriter who has responsibility for underwriting the case.

The Chattel Appraiser may interact with real estate agents and others during the normal course of business to provide property access, information and other market data.

(D) Appraisal Fees

The Chattel Appraiser and the Lender or Lender-designated third party will negotiate the appraisal fees and due date. FHA does not establish appraisal fees or due dates.

(E) Obligation to Report

(1) Professional Appraisal Organizations

The Chattel Appraiser may be a member or hold designations in professional appraisal organizations. If the Chattel Appraiser is a member, candidate or associate of an appraisal organization, the Chattel Appraiser must report to the Lender any adjudicated actions resulting in a disciplinary action, or the suspension of the Chattel Appraiser within 14 Days of such action. The Chattel Appraiser must also disclose this information on each appraisal report submitted for FHA Chattel Loans for the entire period in which the disciplinary action is in place.

(2) Safeguards for Appraiser Independence

The Chattel Appraiser must report attempts to influence independence to answers@hud.gov or by calling1-800-CallFHA. In addition, the Chattel Appraiser must report the attempts to the HUD OIG Hotline. Lenders, Appraisal Management Companies (AMC) and third parties are prohibited from influencing the independence of the Chattel Appraiser and the valuation process. Prohibited acts and attempts to influence the results of an appraisal include the following:

1 2	• withholding or threatening to withhold timely payment or partial payment for an appraisal report;
3	
	• withholding or threatening to withhold future business from a Chattel
4 5	Appraiser, or demoting, terminating or threatening to demote or terminate
	a Chattel Appraiser;
6 7	 making expressed or implied promises of future business, promotions or increased compensation for a Chattel Appraiser;
8	 conditioning the ordering of an appraisal report or the payment of an
9	appraisal fee, salary, or bonus on the opinion, conclusion or valuation to
10	be reached, or on a preliminary value estimate requested from a Chattel
11	Appraiser;
	 requesting that a Chattel Appraiser provide an estimated, predetermined or
12 13 14 15	desired valuation in an appraisal report prior to the completion of the
1 <i>3</i> 1 <i>1</i>	appraisal report, or requesting that a Chattel Appraiser provide estimated
1 4 15	values or comparable sales at any time prior to the Chattel Appraiser's
16	•
	completion of an appraisal report;
17	• providing the Chattel Appraiser with an anticipated, estimated, encouraged
18	or desired value for a subject Property, or a proposed or target amount to
19	be loaned to the Borrower, except for a copy of the sales contract for
20	purchase and any addendum, which must be provided;
21	• providing the Chattel Appraiser, appraisal company, AMC or any Entity
22	or person related to the Chattel Appraiser, with stock or other financial or
21 22 23 24 25 26 27 28	non-financial benefits;
24	• allowing the removal of a Chattel Appraiser from a list of qualified Chattel
25	Appraisers or the addition of a Chattel Appraiser to an exclusionary list of
26	qualified Chattel Appraisers, used by any Entity, without prompt written
27	notice to the Chattel Appraiser that includes written evidence of the
28	Chattel Appraiser's illegal conduct, violation of the USPAP or state
	licensing standards, improper or unprofessional behavior or other
30	substantive reason for removal;
31	 ordering, obtaining, using, or paying for a second or subsequent appraisal
32	or Automated Valuation Model (AVM) in connection with a mortgage
33	financing transaction, unless:
34	o there is a reasonable basis to believe that the initial appraisal was
35	flawed or tainted and such appraisal is clearly and appropriately noted
36	in the case binder; or
37	o such appraisal or AVM was completed pursuant to a written, pre-
38	established bona fide pre- or post-funding appraisal review, quality
39	control process or underwriting guidelines and the Lender adheres to a
40	policy of selecting the most reliable appraisal, rather than the appraisal
41	that states the highest value; and
12	• any other act or practice that impairs or attempts to impair an Appraiser's
43	independence, objectivity, or impartiality or violates law or regulation.

- I. DOING BUSINESS WITH FHA
- **B.** Other Participants
- 2. 203(k) Consultants
- **2. 203(k)** Consultants
- 2 3. Direct Endorsement Underwriters
- **4. Nonprofits and Governmental Entities**
- 4 5. Real Estate Brokers
- 5 6. Closing Agents
- 6 7. Title I Property Improvement Dealers
- A Dealer, for the purposes of a Title I Property Improvement Loan, refers to a seller, contractor,
- 8 or supplier of goods or services. If the Dealer assisted the Borrower in preparing the credit
- 9 application or assisted the Borrower in obtaining the Loan from the Lender, the Lender must
- 10 comply with the requirements in <u>Dealer and Direct Loan Process for Property Improvement</u>
- 11 Loan Program.
- 12 To facilitate the financing of property improvements, the Dealer may enter into a Business
- 13 Relationship with an FHA Title I approved Lender that will provide financing to the Borrower.
- 14 8. Title I Manufactured Home Dealers
- 15 A Dealer, in the case of Manufactured Home Loans, is a person or business that is engaged in the
- business of manufactured home retail sales. Dealers of manufactured home sales have a financial
- interest (either direct or indirect) in the transaction.
- 18 If the Dealer assisted the Borrower in preparing the credit application or assisted the Borrower in
- obtaining the Loan from the Lender, the Lender must comply with the requirements in Dealer
- and Direct Loan Process for Manufactured Home Loan Program.

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II.	ORIGINA	ATION THROUGH	POST-CI	LOSING/END	ORSEMENT

- A. Title II Insured Housing Programs Forward Mortgages
- 1. Dealer and Direct Loan Process for Property Improvement Loan Program

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- 2 A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES
- 3 B. TITLE II INSURED HOUSING PROGRAMS REVERSE MORTGAGES
- 4 C. CONDOMINIUM PROJECT APPROVALS
- 5 D. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND
- 6 **REVERSE MORTGAGES**
- 7 E. TITLE I INSURED PROGRAMS
- 8 1. Dealer and Direct Loan Process for Property Improvement Loan Program
- 9 a. Origination Process Options: Direct and Dealer Loans
- 10 Loans insured under FHA's Property Improvement Loan program are categorized by two
- origination processes: Dealer Loans and Direct Loans.
- i. Direct Loan
- 13 **(A) Definition**
- The Direct Loan process occurs when the Borrower applies directly to the Lender for
- the Property Improvement Loan without assistance from a Dealer, contractor, or third
- party that has a financial interest in the loan transaction.
- 17 **(B) Standard**
- The credit application, signed by the Borrower, must be filled out by the Borrower or
- by a person acting at the direction of the Borrower who does not have a financial
- interest in the loan transaction.
- For a Direct Loan, loan proceeds are disbursed to the Borrower or jointly to the
- Borrower and contractor/Dealer.
- 23 ii. Dealer Loan
- 24 (A) Dealer
- A Dealer refers to, in the case of Property Improvement Loans, a seller, contractor or
- supplier of goods and services.
- 27 **(B) Dealer Loan**
- A Dealer Loan refers to a Loan where a Dealer assists the Borrower in obtaining the
- Loan from the Lender. This may include completing the loan application for the

E. Title I Insured Programs

1.	Dealer and Direct	Loan Process for	Property Improvement	Loan Program
1.	Dealer and Direct	Loan I I occss for		Loan Frezram

1 Borrower, and collecting any other documentation or information as required by the 2 Lender that is necessary to support the lending decision. 3 When the seller, contractor or supplier of goods and services does not assist the Borrower in obtaining the Loan from the Lender, then the transaction is not 4 5 considered a Dealer Loan. 6 b. Dealer Approval and Monitoring 7 The Lender is responsible for approving Dealers prior to the Dealer's participation in the 8 Title I Property Improvement Loan program. The Lender must complete an investigation of 9 the Dealer and document the Findings for approval before the Dealer may begin originating 10 Title I Loans through the Lender. i. Dealer Eligibility for Participation in HUD Programs 11 12 At a minimum, each Dealer must comply with the following requirements for dealer 13 approval. 14 The Lender must verify that the Dealer and the Principal Owners of the dealership are not excluded from participation in federal government programs and document the results of 15 their review. 16 17 The Lender may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of 18 Participation (LDP) that excludes their participation in FHA programs. The Lender must 19 20 ensure that no Third-Party Originator (TPO), Dealer, or contractor engages such an Entity 21 or person to perform any function relating to the origination of an FHA-insured Loan. 22 The Lender must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation. 23 ii. Net Worth Requirement 24 25 A Dealer must have and maintain a net worth of not less than \$32,000 in assets acceptable to HUD. 26 27 The following asset types and sources are not eligible for inclusion towards the minimum 28 net worth: 29 Any assets of the Dealer that are pledged to secure obligations of another person i. 30 or Entity. 31 ii. Any asset due from either officers or stockholders of the Dealer or related Entities, in which the Dealer's officers and stockholders have a personal interest 32 (unrelated to their position as an officer or stockholder). "Personal interest" refers 33 34 to a relationship between the Dealer and a person or Entity in which that specified 35 person (e.g., spouse, parent, grandparent, child, brother, sister, aunt, uncle or in-

- E. Title I Insured Programs
- 1. Dealer and Direct Loan Process for Property Improvement Loan Program

1 2		law) has a financial interest in or is employed in a management position by the Dealer.
3 4 5	iii.	Any investment in related Entities in which the Dealer's officer or stockholders have a personal interest unrelated to their position as an officer or stockholder or the Dealer.
6 7 8 9	iv.	That portion of an investment in joint ventures, subsidiaries, Affiliates and/or other related Entities which is carried at a value greater than equity, as adjusted. "Equity as adjusted" means the book value on the books of the related Entity reduced by the amount of unacceptable assets carried by the related Entity.
10 11 12 13	v.	All intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, etc. except unamortized servicing costs carried at a value established by an Arm's Length Transaction and presented in accordance with Generally Accepted Accounting Principles (GAAP).
14 15 16	vi.	That portion of an asset not readily marketable and for which appraised values are very subjective carried at a value in excess of a substantially discounted appraised value.
17 18	vii.	Any asset which is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes.
19	iii. Bu	siness Experience of the Dealer
20 21 22 23 24	contra basis o	ealers must have demonstrated business experience as a Property Improvement ctor or supplier of goods and services. The Lender must evaluate the Dealer on the of experience, and approve only those Dealers that the Lender considers to be e, financially responsible, and qualified to satisfactorily perform their contractual tions.
25	iv. Ap	oproval Procedure for the Dealer
26 27		rs must follow the procedures listed below to approve a Dealer to participate in the Property Improvement Loan program.
28	(A) Application Form
29 30 31 32	<i>Ap</i> Le	prospective Dealer must complete form <u>HUD-55013</u> , <i>Dealer/Contractor</i> pplication: <i>Title I Property Improvement and Manufactured Home Loans</i> . The inder must retain form HUD-55013 and all supporting documentation in the ealer's file for each Dealer.

- E. Title I Insured Programs
- 1. Dealer and Direct Loan Process for Property Improvement Loan Program

1	(B) Financial Statement
2 3 4 5 6 7 8 9	The Lender must obtain and review the Dealer's most recent annual financial statement to confirm that the Dealer meets HUD's minimum net worth requirement. The financial statement need not be prepared by a licensed accountant, but the Lender must take into consideration that the financial statement must be prepared by someone who is independent of the Dealer and is qualified by education and experience to prepare such statements. If the annual financial statement is greater than six months old, the Lender must also obtain and review the Dealer's Profit and Loss statement and balance sheet to verify that the Dealer's net worth is sufficient.
10	(C) Credit Report
11 12 13 14	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.
15	(D) Required Documentation of Approval
16 17 18 19 20	Upon completion of the Lender's thorough review and investigation of a Dealer, an authorized official of the Lender must sign the bottom of form <u>HUD-55013</u> 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.
21	(E) Annual Renewal
22 23 24	A Dealer is approved for a period of one year. To retain their approval status with the Lender, a Dealer must provide the Lender with a new form HUD-55013 and their most recent financial statement.
25 26 27 28 29 30	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.
31 v	. Dealer Eligibility for Participation in HUD Programs
32	(A) Standard
33 34 35	The Dealer must not be suspended, debarred, or excluded from participation in FHA programs as listed in an <u>LDP</u> , <u>SAM Excluded Parties List</u> , or <u>Credit Alert Verification Reporting System (CAIVRS)</u> .

- **E.** Title I Insured Programs
- 1. Dealer and Direct Loan Process for Property Improvement Loan Program

1	(B) Verification
2 3	If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Lender must verify the validity and
4	delinquency status of the debt by contacting the creditor agency to whom the debt is
5	owed. If the debt was identified through CAIVRS, the Lender must contact the
6 7	creditor agency using the contact phone number and debt reference number reflected in the Dealer's CAIVRS report.
8	If the creditor agency confirms that the debt is valid and in delinquent status as
9	defined by the Debt Collection Improvement Act of 1996 , then the Dealer is
10	ineligible for approval until the debt with the creditor agency is resolved.
11	The Lender need not deny a Dealer solely on the basis of CAIVRS information that
12	has not been verified by the Lender. If resolved either by determining that the
13	information in CAIVRS is no longer valid or by resolving the delinquent status as
14	stated above, the Lender may continue to process the Dealer Loan application.
15	(C) Resolution
16	In order for a Dealer with verified delinquent Federal Debt to become eligible, the
17	Dealer must resolve their federal non-tax debt in accordance with the Debt Collection
18	Improvement Act of 1996.
19	The creditor agency that is owed the debt can verify that the debt has been resolved in
20	accordance with the Debt Collection Improvement Act.
21	(D) Required Documentation
22	The Lender must include documentation from the creditor agency to support the
23	verification and resolution of the debt in the Dealer's file. For debt reported through
24	CAIVRS, the Lender may obtain evidence of resolution by obtaining a clear CAIVRS
25	report.
26	vi. Monitoring the Dealer
27	The Lender is responsible for supervising and monitoring each approved Dealer's
28	activities with respect to Loans insured under Title I.
29	(A) Standard
30	As part of the monitoring duties, Lenders are required to visit each approved Dealer's
31	place of business at least once every six months to review their Title I performance
32	and compliance. Lenders must take prompt action to resolve any dealer deficiencies
33	discovered. Lenders must verify that Title I Dealers/contractors meet and maintain a
34	net worth in assets that is acceptable to the Secretary. Lenders must maintain a file on

- E. Title I Insured Programs
- 1. Dealer and Direct Loan Process for Property Improvement Loan Program

each approved Dealer which contains the executed dealer approval for and supporting 1 2 documentation required under 24 CFR § 201.27(a)(2). 3 (B) Requirements 4 In addition to the initial and annual dealer approval reviews, the Lender must monitor 5 each approved Dealer's activities with respect to Loans insured by HUD on an 6 ongoing basis addressing the following review components. 7 (1) Quality of Borrower Applicants 8 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 9 10 review the Dealer's marketing and borrower qualification practices. 11 (2) Quality of Required Loan Documentation The Lender must monitor the quality and completeness of the loan documentation 12 13 submitted by the Dealer. (3) Dealer Advertising 14 The Lender must monitor dealer advertising and other marketing material to 15 16 ensure against misleading or false claims. The Lender must ensure that 17 advertising and other marketing material does not include prohibited practices or convey the impression that the Dealer has a special relationship or affiliation with 18 19 the federal government. Copies of dealer advertisements and other marketing materials issued by the Dealer must be maintained in the Dealer's file with the 20 21 other required documents. (4) Borrower Complaints against Dealers 22 23 The Lender must monitor complaints received on Loans originated by the Dealer. 24 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 25 26 offered, whether warranties are honored in a timely manner, and the general manner in which the Dealer resolves complaints and conducts their business. 27

1 (5) Irregular Business Practices 2 All credible allegations of irregularities (inducements, disallowed payments to the 3 Borrower, false statements, etc.) must be promptly reported to either to HUD's Office of the Inspector General located in the nearest HUD Field Office or HUD's 4 5 Quality Assurance Division at: 6 U.S. Department of Housing and Urban Development 7 **Ouality Assurance Division** 8 451 Seventh St., SW, Room P3214 9 Washington, DC 20410 10 (6) Material Changes of Dealer 11 A Lender must require each approved Dealer to provide written notification of any material change in their trade name, places of business, type of ownership, 12 13 type of business, or principal individuals who control or manage the business. The 14 Dealer must furnish such notification to the Lender within 30 Days after the date 15 of any material change. Upon discovery of any material change, the Lender must determine that the 16 17 eligibility of the Dealer has not changed. 18 (7) Dealer's File 19 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 20 21 information regarding the Lender's experience with Title I Loans involving the 22 Dealer. Each file must consist of information regarding borrower Default rates. 23 records of inspections of properties delivered and installed by the Dealer, copies 24 of letters concerning borrower complaints and their resolution, material changes, 25 copies of dealer advertisements and other marketing materials, and records of the Lender's visits to the Dealer's premises. 26 vii. Termination of the Dealer 27 28 A Dealer's approval will be terminated if a Dealer does not satisfactorily perform its 29 contractual obligations to Borrowers, does not comply with Title I program requirements, or is unresponsive to inquiries pertaining to lender supervision and monitoring 30 requirements. The Lender is required to notify HUD immediately with written 31 32 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 33 34 approval from HUD. 35 Notices of termination for cause and requests for permission to re-approve a terminated Dealer must be in writing and sent to HUD's Quality Assurance Division. A Lender may, 36 37 at its discretion, terminate the approval of a Dealer for other reasons at any time.

E. Title I Insured Programs

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30 31 2. Property Improvement Loan Program

2. Property Improvement Loan Program

- 2 The Title I Property Improvement program Origination through Post-Closing/Insurance section
- 3 in this SF Handbook is applicable to all Property Improvement Loans insured under Title I of the
- 4 National Housing Act. The Lender must fully comply with all of the following standards and
- 5 procedures for obtaining FHA loan insurance on a Loan.

a. Origination/Processing

i. Application Packages and Disclosures

(A) Borrower Eligibility

(1) Definition

Borrower refers to one who applies for and receives a Loan insured under this part. The term may also include any co-maker or Cosigner or any assumptor who is obligated for the repayment of a loan obligation insured under this part.

(2) Contents of the Loan Application Package

The Lender must maintain all information and documentation that is relevant to its approval decision in the Lender's case binder. All information and documentation that is required in this *SF Handbook*, and any incidental information or documentation related to these requirements, is relevant to the Lender's approval decision.

If, after obtaining all documentation required below, the Lender has reason to believe it needs additional support for the approval decision, the Lender must obtain additional explanation and documentation, consistent with information in the case binder, to clarify or supplement the information and documentation submitted by the Borrower.

(a) Maximum Age of Loan Application Documents

Documents used in the origination and underwriting of a Loan may not be more than 120 Days old at the Disbursement Date. Only documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For counting purposes, Day one is the Day after the effective or issue date of the document, whichever is later.

1 (b) Handling of Documents 2 Lenders, including sponsored TPOs, must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have 3 4 been handled by, or transmitted from or through, the equipment of unknown 5 or Interested Parties, including the Borrower, the Dealer or its agent, or 6 sponsored TPOs. 7 The documents referred to in this section are Lender-generated direct 8 verification documents, which are used to verify and supplement 9 documentation submitted by the Borrower at application. These verifications 10 are to be sent directly from the Lender to the requested responder to obtain 11 independent, written verification of employment, income, rent, or financial accounts. 12 13 (i) Information Sent to the Lender Electronically 14 The Lender must authenticate all documents received electronically by examining the source identifiers (e.g., fax banner header or the sender's 15 16 email address) and contacting the source by telephone to verify the document's validity. The Lender must document the name and telephone 17 number of the individual with whom the Lender verified the validity of the 18 19 document. (ii) Information Obtained via Internet 20 21 The Lender must authenticate documents obtained from an Internet 22 website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the 23 24 date and time the documents were printed. The Lender must verify that the website exists. 25 26 Documentation obtained through the Internet must contain the same 27 information as would be found in an original hard copy of the document. (iii) Confidentiality Policy for Credit Information 28 29 Lenders must not divulge sources of credit information, except as required by a contract or by law. All personnel with access to credit information 30 31 must ensure that the use and disclosure of information from a credit report 32 complies with: • Fair Housing Act, 42 U.S.C. §§ 3601-3619; 33 • the Fair Credit Reporting Act (FCRA), Public Law 91-508; 34 the Privacy Act, Public Law 93-579; 35 the Financial Privacy Act, Public Law 95-630; and 36

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

1 2	 the Equal Credit Opportunity Act (ECOA), Public Law 94-239 and 12 CFR Part 202.
3	(c) Signature Requirements for All Application Forms
4 5	All Borrowers must sign and date form <u>HUD-56001</u> , <i>Credit Application for Property Improvement Loan</i> .
6	The application may not be signed by any party who will not be on the Note.
7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	 A Power of Attorney (POA) may not be used unless the Lender verifies and documents that all of the following requirements have been satisfied: For military personnel, a POA may only be used when all of the following apply: when the service member is on overseas duty or on an unaccompanied tour; when the Lender is unable to obtain the absent Borrower's signature on the application by mail or fax; and where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. For incapacitated Borrowers, a POA may only be used: where a Borrower is incapacitated and unable to sign the application; and where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. For guidance on use of POA on closing documents refer to Use of Power of Attorney at Closing.
24	(d) Prohibition on Documents Signed in Blank
25 26	Lenders are not permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.
27	(e) Policy on Use of Electronic Signatures
28	(i) Definition
29 30 31 32 33	An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

1	(u) Use of Electronic Signatures
2 3 4 5	An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for loan insurance, unless otherwise prohibited by law.
6 7	Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.
8	(iii)Electronic Signature Performance Standards
9 10 11 12	The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Lenders choosing to use electronic signatures must fully comply with the Performance Standards.
13 14	The Electronic Signatures in Global and National Commerce Act (E-SIGN Act) Compliance and Technology
15 16 17 18	A Lender's electronic signature technology must comply with all requirements of the E-SIGN Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.
19	Third Party Documents
20 21	Third Party Documents refer to those documents that are originated and signed outside of the control of the Lender, such as the sales contract.
22 23 24 25 26 27	FHA will accept electronic signatures on Third Party Documents included in the case binder for loan insurance endorsement in accordance with the E-SIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.
28	Authorized Documents
29 30 31	Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Lender complies with the Performance Standards.
32 33 34	• Loan Insurance Endorsement Documents: Electronic signatures will be accepted on all documents requiring signatures included in the case binder for loan insurance.

1 2 3	• Servicing and Loss Mitigation Documentation: Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Loans.
4 5 6 7	• FHA Insurance Claim Documentation: Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-637, <i>Title I Claim for Loss</i> .
8	Associating an Electronic Signature with the Authorized Document
9 10 11 12 13	The Lender must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The Lender must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.
14	Intent to Sign
15 16 17 18 19 20 21 22 23 24 25	 The Lender must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the E-SIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes: identifying the purpose for the Borrower signing the electronic record; being reasonably certain that the Borrower knows which electronic record is being signed; and providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.
26 27 28 29 30 31 32 33 34	 Intent to use an electronic signature may be established by, but is not limited to: an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature; an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.
35	Single Use of Signature
36 37	Lenders must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

E. Title I Insured Programs

2. Property Improvement Loan Progra	2.	Property	Improvement	Loan	Progra
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1 2 3 4	This provision does not apply to documents signed by Lender employees or Lender contractors provided the Lender obtains the consent of the individual for the use of their electronic signature. The Lender must document the Borrower's consent.
5	Authentication - Definition
6 7	Authentication refers to the process used to confirm a signer's identity as a party in a transaction.
8	Authentication - Standard
9 10 11 12 13 14 15 16	Before a Lender reports the Loan for insurance, the Lender must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to: • national commercial credit bureaus; • commercially available data sources or services; • state motor vehicle agencies; or • government databases.
17 18	The Lender must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.
19	Attribution - Definition
20 21	Attribution is the process of associating the identity of a signer with their signature.
22	Attribution - Standard
23 24 25	The Lender must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.
26 27 28 29 30 31 32 33 34 35	 The Lender must use one of the following methods, or combinations of methods, to establish attribution: selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process; delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method; knowledge base authentication using "out of band/wallet" information;

Ε.	Title	I	Insured	Programs
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2. Property Improvement Loan Program

1 2 3 4 5	 measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or public key cryptography.
6	Credential Loss Management
7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23	 Lenders must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable: maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password; ensuring that identification code and password issuances are periodically checked, recalled, or revised; following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls; using transaction safeguards to prevent unauthorized use of passwords or identification codes; or detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.
24	(f) Required Documentation and Integrity of Records
25 26 27 28 29	Lenders must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Lenders must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.
30 31 32	If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.
33 34 35 36	The Lender's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Lender or holder as the controlling reference copy.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(3) Credit Application and Required Supporting Documentation
2 3 4	The Lender must obtain the Borrower's complete, signed form <u>HUD-56001</u> , <i>Credit Application for Property Improvement Loan</i> , before underwriting the Loan.
5	(a) Interview with Borrower
6 7 8 9	The Lender must conduct a telephone or face-to-face interview with the Borrower and any co-maker or Cosigner to resolve any material discrepancies, and ensure that the information, including listed debts and obligations, is accurate and complete.
10	(b) Contractor Certification
11 12 13	If the Dealer/contractor is to be included as a payee of the loan proceeds as in joint Disbursement to the Borrower and the Dealer/contractor, the person selling the improvements must sign the form HUD-56001"><u>HUD-56001</u> .
14	(c) Credit Application Name Requirements
15	(i) Standard
16 17	All credit applications <i>must</i> be executed in the legal names of one or more individuals on the application.
18 19 20	Credit applications from a corporation, partnership, sole proprietorship, nonprofit or trust (including living or non-revocable trusts) are not permitted under Title I.
21 22 23 24	A multifamily dwelling (two or more units) may be owned by a corporation, partnership, or trust with prior approval from the Secretary. Loan applications from a corporation, partnership, or trust must be in the name of the Entity and also be in the name of one or more individuals.
25	(ii) Required Documentation
26 27 28	The Lender must verify the Borrower's identity using a valid government issued photo identification prior to approving the Loan. A copy of the photo identification must be retained in the case binder.
29	(d) Disclosure of Improvements to be Made
30	The improvements to be made must be specified on form HUD-56001.

E. Title I Insured Programs

2. Property Improvement Loan Program

(4) Borrower's Authorization

The Lender must obtain the Borrower's authorization to verify the information needed to process the loan application. The Lender must obtain a Non-Borrowing Spouse's consent and authorization where necessary to verify specific information required to process the loan application, including the Non-Borrowing Spouse's consent for the Lender to verify their SSN with the Social Security Administration (SSA).

(5) Borrower's Authorization for Use of Information Protected under the Privacy Act

(a) Standard

The Lender must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the Loan or, if applicable, the Property securing the Loan, and relating to any insurance claim and ultimate resolution of such claims by the Lender and FHA.

(b) Required Documentation

The Lender must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

(6) Improvement Contract and Required Documentation

(a) Standard

The Lender must not originate a Title I Property Improvement Loan if any provision of a contract or agreement to perform property improvements violates FHA requirements. An addendum or modification may be used to remove or correct nonconforming provisions.

The Lender must ensure (1) all individuals listed on the improvement contract are Borrowers, and (2) all Borrowers sign the improvement contract.

(b) Required Documentation

The Lender must obtain supporting documentation to determine if all improvements are eligible for Title I financing and also to determine the reasonableness of the cost for the material and labor described.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(i) Contractor Improvements
2	If a Borrower plans to use a contractor, a Lender must obtain a copy of a
3	proposal or contract that describes in detail the work to be performed and
4	the estimated or actual cost.
4	the estimated of actual cost.
5	(ii) Borrower Acting as Own Contractor
6	If a Borrower is Acting as Own Contractor, the Lender must obtain a
7	detailed written description of the work to be performed including the
8	materials to be furnished and their estimated cost.
9	(iii)Split Financing
10	If a contract or work estimate exceeds the amount of the Title I Loan, the
11	Lender must verify the source of the additional funds. If the funds are
12	from an additional Loan, this Loan Payment must be considered in the
13	Borrower's debt ratio.
14	(B) Disclosures and Legal Compliance
15	The Lender must provide or ensure the Borrower is provided with the following
16	disclosure.
17	(1) Notice to Borrower of HUD's Role in Title I Loans
18	(a) Standard
19	The Lender must provide a written notice to clearly inform each Borrower that
20	the Loan will be insured against Default by HUD and about the actions that
21	HUD will take to collect the Loan if the Borrower defaults. This notice also
22	serves to document the Borrower's agreement to pay any penalties and
23	administrative costs that may be assessed by HUD.
24	(b) Required Documentation – Borrower Acknowledgement
25	The Lender must have each Borrower sign a copy of the notice at loan
26	application. The copy signed by the Borrower(s) must be retained in the case
27	binder.
28	(c) Required Documentation – Wording of the Notice
29	On any newly originated dealer Property Improvement Loan, and on any
30	refinanced or assumed Property Improvement Loan, the Lender must prepare
31	the notice on the Lender's letterhead. The notice must read as follows:
32	We have approved your application for a property improvement
33	loan that is to be insured by the Department of Housing and Urban
	y

1 Development. If you fail to repay this loan as agreed, we may assign the 2 loan and any mortgage to HUD for collection. 3 Failure to pay this debt to HUD may result in offset of Federal 4 payments due you (including Federal income tax refunds, Social Security 5 benefit payments, and Federal employee wages or retirement) or may 6 result in the administrative garnishment of your wages. In addition, 7 failure to pay may result in the referral of the debt for collection by the 8 Department of Justice, by the Department of the Treasury, or by private 9 collection agencies. In addition to principal and interest on the debt, you 10 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 11 12 United States Code. 13 Your signature below indicates that you have read and understand 14 this notice, and that you consent to pay any penalties, administrative costs, 15 and interest that may be assessed by HUD. On any newly originated direct Property Improvement Loan, the text of the 16 notice must read as follows: 17 18 We have approved your application for a property improvement 19 loan that is to be insured by the Department of Housing and Urban Development. As one of the conditions of loan approval, you have agreed 20 to furnish us with a completion certificate after the work is completed, and 21 22 to permit us, or our agent, to inspect the completed improvements. If you 23 fail to repay this loan as agreed, we may assign the loan and any 24 mortgage to HUD for collection. 25 Failure to pay this debt to HUD may result in offset of Federal 26 payments due you (including Federal income tax refunds, Social Security 27 benefit payments, and Federal employee wages or retirement) or may 28 result in the administrative garnishment of your wages. In addition, 29 failure to pay may result in the referral of the debt for collection by the 30 Department of Justice, by the Department of the Treasury, or by private collection agencies. In addition to principal and interest on the debt, you 31 32 will be liable for the payment of any penalties or administrative costs that 33 may be imposed by HUD as authorized by Section 3717 to Title 31 of the United States Code. 34 35 Your signature below indicates that you have read and understand 36 this notice, and that you consent to pay any penalties, administrative costs, 37 and interest that may be assessed by HUD.

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1	(2) Compliance with All Applicable Laws, Rules, and Requirements
2 3 4	The Lender must comply with all federal, state, and local laws, and requirements applicable to the loan transaction, including full compliance with the applicable disclosure requirements of the Consumer Financial Protection Bureau (CFPB),
5	including those related to:
6	Truth in Lending Act (TILA); and
7	 Real Estate Settlement Procedures Act (RESPA).
8	(3) Nondiscrimination Policy
9	The Lender must fully comply with all applicable provisions of:
10	 Fair Housing Act, 42 U.S.C. §§ 3601-3619;
11	• the FCRA, Public Law 91-508; and
12	 the ECOA, Public Law 94-239 and 12 CFR Part 202.
13	The Lender must make all determinations with respect to the adequacy of the
14	Borrower's income in a uniform manner without regard to race, color, religion,
15	sex, national origin, familial status, disability, marital status, actual or perceived
16	sexual orientation, gender identity, source of income of the Borrower, or location
17	of the Property.
18	(C) Application Document Processing
19	The Lender must report the Loan and perform any associated tasks in FHA
20	Connection (FHAC). The Lender may use non-employees in connection with its
21	origination of FHA-insured Loans only as described below.
22	The Lender ultimately remains responsible for the quality of the Loan and for strict
23	compliance with all applicable FHA requirements, regardless of the Lender's
24	relationship to the person or Entity performing any particular service or task.
25	(1) Sponsored Third-Party Originator
26	The Lender is responsible for dictating the specific application and processing
27	tasks to be performed by the sponsored TPO. Only HUD-approved Lenders acting
28	in the capacity of a sponsored TPO may have direct access to FHAC.
29	(2) Dealer
30	The Lender is responsible for approving and monitoring a Dealer and dictating the
31	specific application and processing tasks that the Dealer performs.
32	(3) Contract Service Providers
33	A Lender may use qualified contractors to perform the administrative and clerical
34	loan processing functions, provided the contractors do not have an interest in the

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

transaction. These contractors perform the following functions: typing loan 1 2 documents, mailing out and collecting verification forms, ordering credit reports, 3 and/or preparing for insuring and shipping Loans to Investors. 4 (4) Excluded Parties 5 The Lender may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a 6 7 Limited Denial of Participation (LDP) that excludes their participation in FHA 8 programs. The Lender must ensure that no sponsored TPO or contractor engages 9 such an Entity or person to perform any function relating to the origination of an 10 FHA-insured Loan. The Lender must check the System for Award Management (SAM) and must 11 follow appropriate procedures defined by that system to confirm eligibility for 12 13 participation. (5) Underwriter Qualifications 14 15 HUD does not approve nor require Direct Endorsement certification for Title I underwriters. Title I Lenders approve the underwriter based on demonstrated 16 17 capabilities and knowledge in loan underwriting. The Lender must register each underwriter in FHAC. By registering the 18 19 underwriter in FHAC, the Lender certifies that the underwriter meets the 20 necessary qualifications to underwrite Title I Property Improvement Loans. The 21 underwriter must be a full-time employee of the Lender. (D) Initial Document Processing 22 23 The Lender begins processing the Loan by obtaining form HUD-56001, Credit Application for Property Improvement Loan. 24 25 (E) Case Number Assignment 26 The case number is assigned when the Loan is reported for insurance in FHAC. 27 A Lender reports all prospective Title I Property Improvement Loans to HUD via the FHAC portal web site. Once the Lender's submission passes all data entry 28 29 validations, it is accepted for overnight processing. 30 This process verifies the submitted data against a series of system validations. Once 31 completed, the system will issue a Title I case number that will be specific to the loan 32 transaction. The system will advise the Lender if additional information is required or 33 if corrections are needed.

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ii. Property Improvement Loan Eligibility and Purpose

(A) Definition

A Property Improvement Loan refers to a Loan made to finance actions or items that substantially protect or improve the basic livability or utility of a Property. Unless otherwise indicated, the term includes:

- Single Family, Multifamily and Nonresidential Property Improvement Loans;
- Manufactured Home Improvement Loans classified as real estate or as Personal Property;
- Historic Preservation Loans; and
- Fire Safety Equipment Loans in existing Health Care Facilities.

(B) Standard

The loan proceeds may be used for the following loan types and purposes.

(1) Single Family Property Improvement Loan

A Single Family Property Improvement Loan refers to a Loan to finance alterations, repairs and improvements to or in connection with an Existing Structure used or to be used as a Single Family residence.

Existing Structure refers to a dwelling, including a Manufactured Home, which was completed and occupied at least 90 days prior to an application for a Title I Loan, or a nonresidential Structure that was a completed building with a distinctive functional use prior to an application for a Title I Loan. However, these occupancy and completion requirements shall not apply to:

- Loans having a principal obligation of \$1,000 or less; or
- residential Structures which have been damaged by conditions determined by the President to warrant relief under the provisions of title 42, chapter 68, of the United States Code.

(2) Multifamily Property Improvement Loan

A Multifamily Property Improvement Loan refers to a Loan to finance the alteration, repair, improvement, or conversion of an Existing Structure used or to be used as an apartment house or a dwelling for two or more families. The multifamily Structure may not be owned by a corporation, partnership, or trust, unless prior approval from the Secretary is obtained for an exception to this requirement.

(3) Nonresidential Property Improvement Loan

A Nonresidential Property Improvement Loan refers to a Loan made to finance the construction of a new, exclusively nonresidential Structure or the alteration, repair or improvement of an Existing Structure that is nonresidential. Such a

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Structure may be temporarily used for residential purposes while the Borrower constructs a new dwelling to replace a dwelling previously occupied by the Borrower that was destroyed or damaged by conditions determined by the President to warrant relief under the provisions of 42 U.S.C. Chapter 68, provided that the credit application is filed within one year from the date of such a determination.

(4) Manufactured Home Improvement Loan (Real Estate)

A Manufactured Home Improvement Loan refers to a Loan made to finance the alteration, repair or improvement of an Existing Manufactured Home, which is classified as Real Property in that the home is placed on a permanent foundation, the home and lot are classified as realty by the State or locality in which the Property is located, and any Loans on the Property are secured by Loans or deeds of trust covering the home and lot. The proceeds of a Manufactured Home Improvement Loan may also be used for improvements to the home site, as long as the Borrower is the Owner of the home and the underlying real estate.

An Owner is a person, including a Borrower, who has title in whole or in part to the Property which is the subject of a loan transaction.

(5) Manufactured Home Improvement Loan (Chattel/Personal Property)

A Manufactured Home Improvement Loan refers to a Loan made to finance the alteration, repair or improvement of an Existing Manufactured Home, which is classified as Personal Property by the State or locality in which the Property is located. The proceeds of a Manufactured Home Improvement Loan may also be used for improvements to the home site, as long as the Borrower is the Owner of the home and the underlying real estate.

(6) Historic Preservation Loan

A Historic Preservation Loan refers to a Loan to finance the preservation (Restoration or Rehabilitation) of an historic residential Structure, which is listed on the National Register of Historic Places, or certified by the Secretary of the Interior as conforming to National Register criteria.

Restoration is the process of accurately recovering the form and details of a historic residential structure as it appeared at a particular period of time by removing later work and by replacing missing original work.

Rehabilitation refers to the process of returning a historic residential structure to a state of utility, through repair or alteration, which makes possible an efficient contemporary use. In Rehabilitation, those portions of the Property important in illustrating historic, architectural and cultural values are preserved or restored.

1 (7) Fire Safety Equipment Loan for Health Care Facility 2 A Fire Safety Equipment Loan refers to a Loan made to finance the purchase and 3 installation of any device or construction feature which is recognized in the latest 4 edition of HUD's Minimum Property Standards for Care Type Housing (HUD 5 Handbook 4920.1) or the Fire Safety Code of the National Fire Protection 6 Association, and is designed to reduce the risk of death, personal injury, or property damage resulting from a fire in a Health Care Facility. 7 8 A Health Care Facility refers to a proprietary facility or a facility of a private 9 nonprofit corporation or association licensed or regulated by the state or by the 10 municipality or other political subdivision in which the facility is located, and 11 operated as one or more of the following: a nursing home for the accommodation of convalescents or other persons 12 13 who are not acutely ill and not in need of hospital care, but who require 14 skilled nursing care and related medical services performed under the 15 general direction of persons licensed by the law of the state where the 16 facility is located to provide such care or services; 17 an intermediate Health Care Facility for the accommodation of persons who, because of incapacitating infirmities, require minimum but 18 19 continuous care, but not continuous medical care or nursing services; 20 an extended Health Care Facility for inpatient care for convalescents or chronic disease patients who require skilled nursing care and related 21 22 medical services; or another comparable Health Care Facility. 23 24 (C) Refinance 25 A refinance transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property. The existing debt to be paid off must 26 27 be a Title I Property Improvement Loan. The refinance Loan may also advance funds for additional improvements. 28 29 FHA insures three types of Title I Property Improvement refinance transactions: 1. Simple Title I Property Improvement Refinance 30 2. Streamline Title I Property Improvement Refinance (Non-Credit Qualifying) 31 3. Title I Property Improvement Refinance With Advance of Funds 32 33 (D) General Borrower Eligibility Requirements 34 In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section. 35 36 The Borrower who is also the Dealer or contractor must comply with Title I Borrower 37 Acting as Own Contractor policy.

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1	(1) Social Security Number
2	(a) Standard
3	Each Borrower must provide evidence of their valid Social Security Number
4	(SSN) to the Lender. Individuals employed by the World Bank, a foreign
5	embassy, or equivalent employer identified by HUD are not required to
6	provide an SSN.
7	(b) Required Documentation
8	The Lender must:
9	 validate and document an SSN for each Borrower, co-Borrower, or
10	Cosigner on the Loan by:
11	o entering the Borrower's name, date of birth, and SSN in the
12	Borrower/address validation screen through FHAC ; and
13	 examining the Borrower's Social Security Card, original pay stubs
14	W-2 forms, valid tax returns obtained directly from the Internal
15	Revenue Service (IRS), or other document relied upon to
16	underwrite the Loan; and
17	 resolve any inconsistencies or multiple SSNs for individual Borrowers
18	that are revealed during loan processing and underwriting using a
19	service provider to verify the SSN with the SSA.
20	(2) Borrower Age Limits
21	The Borrower must be old enough to enter into a loan Note that can be legally
22	enforced under the laws of the State or other jurisdiction where the Property is
23	located. There is no maximum age limit for a Borrower.
24	(3) Borrower and Co-Borrower Ownership and Obligation Requirements
25	The Borrower must have at least a one-half interest in the Property that is being
26	improved in one of the following forms:
27	Fee Simple title to the Real Property, including a Manufactured Home that
28	qualifies as Real Property;
29	• lease of the Real Property for a fixed term, which expires not less than six
30	calendar months after the final maturity of the proposed Title I Loan;
31	• a recorded land installment contract for the purchase of the Property; or
32	• title to a Manufactured Home that is the Principal Residence of the
33	Borrower.
34	To be eligible, all Borrowers and co-Borrowers must have title to the Property at
35	settlement, be obligated on the Note or credit instrument, and sign all Security
36	Instruments.

E. Title I Insured Programs

2.	Property	Improvement	Loan	Program
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2 3	However, the Security Instrument must be executed by all parties necessary to make the lien valid and enforceable under state law.
4	(4) Citizenship and Immigration Status
5	U.S. citizenship is not required for loan eligibility.
6	(5) Residency Requirements
7 8 9	The Lender must determine the residency status of the Borrower based on information provided on the loan application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status.
10	(a) Lawful Permanent Resident Aliens
11	(i) Standard
12	A Borrower with lawful permanent resident alien status may be eligible
13 14	for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.
15	(ii) Required Documentation
16 17	For persons with lawful permanent resident alien status, the Lender must document the file with evidence of permanent residency.
18	The U.S. Citizenship and Immigration Services (USCIS) within the
19 20	Department of Homeland Security provides evidence of lawful, permanent residency status.
21	(b) Non-Permanent Resident Aliens
22	A Borrower who is a non-permanent resident alien may be eligible for FHA-
23	insured financing provided:
24	• the Borrower has a valid SSN;
25	• the Borrower is eligible to work in the United States, as evidenced by
26	the Employment Authorization Document issued by the USCIS; and
27 28	 the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.
29	The Employment Authorization Document is required to substantiate work
30	status. If the Employment Authorization Document will expire within one
31	year and a prior history of residency status renewals exists, the Lender may
32	assume that continuation will be granted. If there are no prior renewals, the
33 34	Lender must determine the likelihood of renewal based on information from the USCIS.
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- E. Title I Insured Programs
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1 A Borrower residing in the U.S. by virtue of refugee or asylee status granted 2 by the USCIS is automatically eligible to work in this country. The 3 Employment Authorization Document is not required, but documentation 4 substantiating the refugee or asylee status must be obtained by the Lender. 5 (c) Non-U.S. Citizens without Lawful Residency 6 Non-U.S. citizens without lawful residency in the U.S. are not eligible for 7 FHA-insured Loans. 8 (6) Borrower Ineligibility due to Delinquent Federal Non-Tax Debt 9 (a) Standard 10 Lenders are prohibited from processing an application for an FHA-insured 11 Loan for Borrowers with delinquent federal non-tax debt, including 12 deficiencies and other debt associated with past FHA-insured Loans. Lenders 13 are required to determine if the Borrowers have delinquent federal non-tax 14 debt. Lenders may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers 15 against the Credit Alert Verification Reporting System (CAIVRS). 16 17 (b) Verification If a delinquent Federal Debt is reflected in a public record, credit report or 18 19 equivalent, or CAIVRS or an Equivalent System, the Lender must verify the 20 validity and delinquency status of the debt by contacting the creditor agency 21 to whom the debt is owed. If the debt was identified through CAIVRS, the 22 Lender must contact the creditor agency using the contact phone number and 23 debt reference number reflected in the Borrower's CAIVRS report. 24 If the creditor agency confirms that the debt is valid and in delinquent status 25 as defined by the Debt Collection Improvement Act of 1996, then the Borrower is ineligible for an FHA-insured Loan until the Borrower resolves 26 27 the debt with the creditor agency. 28 The Lender may not deny a Loan solely on the basis of CAIVRS information 29 that has not been verified by the Lender. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent 30 status as stated above, the Lender may continue to process the loan 31 32 application. 33 (c) Resolution 34 In order for a Borrower with verified delinquent Federal Debt to become 35 eligible, the Borrower must resolve their federal non-tax debt in accordance 36 with the Debt Collection Improvement Act of 1996.

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

The creditor agency that is owed the debt can verify that the debt has been 1 2 resolved in accordance with the Debt Collection Improvement Act. 3 (d) Required Documentation 4 The Lender must include documentation from the creditor agency to support 5 the verification and resolution of the debt. For debt reported through CAIVRS, the Lender may obtain evidence of resolution by obtaining a clear 6 7 CAIVRS report. 8 (7) Eligibility Period for Borrowers Delinquent on FHA-insured Loans 9 If a Borrower is currently Delinquent on an FHA-insured Loan, they are ineligible 10 for insurance on a new FHA Loan unless the delinquency is resolved. 11 (8) Delinquent Federal Tax Debt (a) Standard 12 13 Borrowers with delinquent Federal Tax Debt are ineligible. 14 Tax liens may remain unpaid if the Borrower has entered into a valid 15 repayment agreement with the federal agency owed to make regular payments on the debt, and the Borrower has made timely payments for at least three 16 months of scheduled payments prior to the date of application. The Borrower 17 cannot prepay scheduled payments in order to meet the required minimum of 18 19 three months of payments. The Lender must include the payment amount in the agreement in the 20 calculation of the Borrower's Debt-to-Income (DTI) ratio. 21 22 (b) Verification Lenders must check public records and credit information to verify that the 23 Borrower is not presently delinquent on any Federal Debt and does not have a 24 tax lien placed against their Property for a debt owed to the federal 25 26 government. 27 (c) Required Documentation 28 The Lender must include documentation from the IRS evidencing the 29 repayment agreement and verification of payments made, if applicable.

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2. Property Improvement Loan Program

1	(9) Valid Lien Requirements
2	(a) Unsecured Loan
3 4	A Property Improvement Loan amount less than or equal to \$7,500 may be unsecured.
5 6 7	A Manufactured Home Improvement Loan on a unit classified as Personal Property need not be secured and any/combined Title I Loans must not exceed \$7,500.
8	(b) Secured Lien
9 10	Any Property Improvement Loan in excess of \$7,500 must be secured against the subject Property.
11 12 13	If there are other Title I Loans on the same Property, a Property Improvement Loan of \$7,500 or less must be secured if the combination of outstanding balances on the Title I Loans will exceed \$7,500.
14	(c) Lien Priority
15	(i) Standard
16 17	The secured Title I Property Improvement Loan need not be in first lien position. The lien may be in either the first or the second lien position.
18	(ii) Exception
19 20 21 22 23 24 25 26 27 28 29 30 31 32	 A third lien position may be accepted under the following circumstances: where the existing first and second mortgages were made at the same time for a purchase; where an existing second mortgage was provided by a state or local government agency in conjunction with a downpayment assistance program; with a two lien purchase where the second lien expires after a period of occupancy; or when the Borrower used a two-lien transaction to purchase the Property, but refinanced the first trust as a no cash-out or for a lower interest rate. The refinanced first mortgage may include closing costs and reasonable financing fees, but must not have financed additional funds for improvements, debt consolidation, and delinquent taxes, and must not result in cash to the Borrower.
33	A third lien position is not acceptable when:

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

1 2 3 4	 an existing second mortgage encumbering the Property is a home equity line of credit, or a Home Equity Conversion Mortgage (HECM), or any reverse mortgage; or the Property is secured by any partial claim event.
5	(iii)Required Documentation
6 7	Lenders must document concurrent loan dates of the Loans secured by a first and second lien.
8 9 10 11 12 13 14 15	 If the Borrower refinanced the original first mortgage, documentation must be obtained to evidence: the date of the first mortgage, and date of refinance; the second lien had been subordinated so that it retained second position; and the refinanced first mortgage was not greater than the Payoff of the unpaid balance, plus closing costs and reasonable financing fees, and no cash to the Borrower.
16	(10) Property Held in Living Trust
17 18	A Property held in a Living Trust is not eligible for a Title I Property Improvement Loan.
19	(E) Excluded Parties
20 21	The Lender must establish that no participants are Excluded Parties and document the determination on the Title I loan summary/underwriter's worksheet.
22	(1) Borrower
23	(a) Standard
24 25 26	A Borrower is not eligible to participate in FHA-insured loan transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.
27	(b) Required Documentation
28 29 30	The Lender must check the HUD <u>Limited Denial of Participation</u> (LDP) list to confirm the Borrower's eligibility to participate in an FHA-insured loan transaction.
31 32 33	The Lender must check the <u>System for Award Management</u> (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

- **E.** Title I Insured Programs
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1	(2) Other Parties to the Transaction
2	(a) Standard
3	A Loan is not eligible for FHA insurance if anyone participating in the loan
4	transaction is found on HUD's LDP list or in SAM. This may include but is
5	not limited to:
6	• Borrower
7	 Dealer involved in a Dealer Loan
8	• loan officer
9	• loan processor
10	• underwriter
11	(b) Required Documentation
12	The Lender must check HUD's LDP list and SAM, and must follow
13	appropriate procedures defined by that system to confirm eligibility for
14	participants involved in the transaction.
15	(F) Policy Limiting the Number of Title I Property Improvement Loans
16	(1) Standard
17	Multiple Title I Loans may be issued for the same Property, provided that the sun
18	of the outstanding balances on all Title I Loans on the same Property do not
19	exceed the maximum loan amount outlined above (based on the type of Property)
20	(2) Required Documentation
21	The Lender must include in the case binder verification of the outstanding
22	balances of all Title I Loans.
23	(G)Occupancy Requirements
24	(1) Standard
25	For all property types except Manufactured Homes, the Borrower is not required
26	to occupy the Property.
27	(2) Manufactured Home Improvement Loan Standard
28	The Borrower must own and occupy a Manufactured Home as a Principal
29	Residence.

1	(a) Definition of Principal Residence
2 3	A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower
4 5	typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.
6	Exception
7	A Borrower who is serving in the United States military and is temporarily
8	deployed or assigned from their permanent duty station near the Manufactured
9	Home is considered to be in a temporary duty status and qualifies as meeting
10	the occupancy requirement.
11	(b) Required Documentation
12	When improvements to a Manufactured Home are financed by a Title I
13	insured Loan, the Borrower must certify that the Manufactured Home is
14	occupied as a Principal Residence.
15	Form HUD-56001, Credit Application for Property Improvement Loan, and
16	other loan documents must consistently evidence that the Borrower occupies
17	the Manufactured Home. If the Borrower owns other Property, an attachment
18	to form HUD-56001 must identify the property address, expenses for debt,
19	taxes and insurance, and its use as either a Secondary Residence or for
20	investment.
21	When a Borrower does not occupy a Manufactured Home because of
22	temporary deployment or assignment in the United States military, the case
23	binder must contain documentation to evidence the orders or assigned duty
24	station that is not within reasonable commuting distance from the
25	Manufactured Home.
26	(H)General Property Eligibility
27	(1) Eligible Geographic Locations
28	The Property must be located within the U.S., Puerto Rico, Guam, the Virgin
29	Islands, the Commonwealth of the Northern Mariana Islands, or American
30	Samoa.
31	(2) Restrictions on Property Locations within Coastal Barrier Resources
32	System
33	In accordance with the Coastal Barrier Resources Act, a Property is not eligible
34	for FHA loan insurance if the improvements are in or are proposed to be located
35	within the Coastal Barrier Resources System (CBRS).

- **E.** Title I Insured Programs
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1	(3) Hazard Insurance
2	Hazard insurance is not required for Title I Property Improvement Loans.
3	(4) Special Flood Hazard Areas
4	(a) Standard
5 6 7 8	The Lender must determine if the Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The Lender must obtain flood zone determination services to cover the Life of the Loan Flood Certification.
9 10	Lenders and Servicers must ensure that Borrowers maintain adequate flood insurance during the life of the Loan.
11 12 13 14	Insurance must be obtained if the Lender or Servicer becomes aware that the home site involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. The insurance must be maintained by the Borrower for the remaining term of the Loan.
15 16 17	Coverage must meet minimum federal requirements for the type of Property under the National Flood Insurance Program (NFIP). At their discretion, Lenders may require more insurance than those set by the NFIP.
18 19	Lenders must force place flood insurance if the Borrower allows the policy to lapse or if the coverage is found to be inadequate.
20 21 22	Flood maps and other information about FEMA designated flood hazard areas may be obtained from <u>FEMA's website</u> or by contacting the FEMA office for the geographic area in question.
23	(b) Required Documentation
24 25	The Lender must obtain the Life of the Loan Flood Certification indicating whether or not the property site is located within an SFHA.
26	(5) Flood Insurance
27	(a) Standard
28 29	Flood insurance is required if the Property to be improved is located in a FEMA designated flood hazard area.
30 31	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.

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Prior to closing, Lenders must inform Borrowers of the requirement to have or 1 2 obtain adequate flood insurance as a condition of closing for Properties where 3 any portion of the Property is located in an SFHA. Flood insurance must be maintained for the life of the insured Loan. 4 5 (b) Required Documentation 6 When the property site is located in an SFHA, the Lender must provide a copy 7 of the pages from the flood insurance policy showing coverage amount equal to or greater than the unpaid principal balance due on the Title I Loan and 8 9 reflecting the Lender as loss payee. 10 (6) Property Types 11 Title I insures the following eligible property types: Single Family dwelling (1 unit) 12 13 multifamily dwelling (2 or more units) 14 nonresidential Property Manufactured Home (real estate) 15 Manufactured Home (Chattel/Personal Property) 16 17 historic Property (listed on the National Register of Historic Places or 18 certified by the Secretary of the Interior as conforming to National Register criteria) 19 20 (a) Single Family Dwelling 21 A Single Family Dwelling refers to a one-unit residential Structure that was 22 completed and occupied at least 90 Days prior to loan application. This 90-Day occupancy requirement need not be: 23 24 • satisfied by the Borrower; or • the 90 Days immediately prior to the loan application. 25 26 A newly constructed dwelling not previously occupied for 90 Days is not eligible for a Title I Property Improvement Loan. 27 A vacant residence is eligible so long as it was previously occupied at some 28 29 point in the past (for at least 90 Days). 30 (b) Multifamily Dwelling 31 A Multifamily Property refers to an Existing Structure used or to be used as an apartment house or dwelling for two or more families. 32

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1	(c) Nonresidential Property
2 3	A Nonresidential Property refers to a Structure that is used or will be used exclusively for nonresidential purposes.
4	(d) Manufactured Home
5 6 7 8	A Manufactured Home refers to a transportable Structure, comprised of one or more modules, each built on a permanent chassis, with or without a permanent foundation, designed for occupancy as a Principal Residence by a single family.
9 10 11 12 13 14	A Manufactured Home being improved may have been constructed at any time, including construction prior to June 15, 1976. The Title I Property Improvement Loan program does not require that Manufactured Homes comply with the National Manufactured Housing Construction and Safety Standards Act of 1974 (42 U.S.C. §§ 5401-5426) at 24 CFR Part 3280. The Borrower must occupy the Property as their Principal Residence.
15	(i) Manufactured Home (Real Estate)
16 17 18 19 20 21 22	 A Manufactured Home refers to a one-unit Manufactured Home that qualifies as real estate in that: the home is placed on a permanent foundation; the home and the lot are classified as real estate by the State or the locality in which the Property is located; and any Loans on the Property are secured by Mortgages or deeds of trust covering the home and lot.
23	(ii) Manufactured Home (Chattel/Personal Property)
24 25 26	A Manufactured Home refers to an Existing Manufactured Home unit classified as Personal Property in the State or locality where the Property is located.
27	(e) Historic Property
28 29 30	A Historic Property refers to a residential Structure that is listed on the National Register of Historic Places or is certified by the Secretary of the Interior as conforming to National Register criteria.

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b. Allowable Loan Parameters

i. Maximum Loan Amounts

- The principal amount for a Property Improvement Loan must not exceed the actual cost of the <u>Eligible Improvements</u> in the project plus <u>Financeable Fees and Charges</u>, up to the Title I Property Improvement Nationwide Loan Limits.
- The Nationwide Loan Limits are based on the property type and loan purpose.

(A) Title I Property Improvement Nationwide Loan Limits

- A Title I Property Improvement Loan must not exceed the Nationwide Loan Limits published by HUD, including any Financeable Fees and Charges.
- The Title I Property Improvement Loan Limits for the Property Improvement program are statutorily mandated.
 - For Title I Property Improvement Loans, the loan amount is limited to the lesser of the cost of eligible improvements, plus any financeable fees, or the amount shown in the charts below for the property type or loan purpose.

Single Family and Multifamily Residential Property Types		
Number of Units	Secured Maximum Loan Amount	Unsecured Maximum Loan Amount
One	\$25,000	\$7,500
Two	\$24,000	
Three	\$36,000	
Four	\$48,000	
Five or more units	\$60,000	
Manufactured Home	\$25,090	
classified as Real Property		
Manufactured Home	\$7,500	
classified as Chattel or		
Personal Property	Lien is optional	

Other Property Types and Loan Purposes		
Type or Purpose	Secured Maximum Loan Amount	Unsecured Maximum Loan Amount
Nonresidential Property	\$25,000	\$7,500
Historic preservation for	Lesser of:	
residential dwelling(s)	• \$15,000 per Dwelling	
	Unit; or	
	• \$45,000.	
Fire Safety Equipment Loans	\$50,000	

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15 16 2. Property Improvement Loan Program

If the Borrower has more than one Loan, the combination of the outstanding balances on a particular Property must not exceed the largest of the maximum loan amount limits prescribed for the property type or loan purpose.

(B) Required Investment

The Borrower is not required to contribute funds to the property improvement project. All money to fund the eligible improvements and allowable fees may be derived from the proceeds of the Title I insured Loan, and <u>other sources</u>, as applicable.

(C) Minimum Equity

The Borrower is not required to have equity in the Property.

ii. Loan Term

(A) Minimum Loan Term

The minimum loan term for all property types and purposes is six months.

(B) Maximum Loan Term

(1) New Property Improvement Loan

The maximum loan term for a new Title I Property Improvement Loan is based on property type and purpose.

Single Family and Multifamily Properties			
Number of Units	Loan Term		
Number of Units	Maximum	Minimum	
One	20 years and		
Two	32 Days		
Three			
Four		6 months	
Five or more units		o monuis	
Manufactured Home classified	15 years and		
as Real Property	32 Days		
Manufactured Home classified	12 years and		
as Chattel or Personal Property	32 Days		

Other Property Types and Loan Purposes		
Type or Purpose	Maximum	Minimum
Type of Turpose	Loan Term	Loan Term
Nonresidential Property	20 years and	
	20 years and 32 Days	
Historic Preservation for	15 years and	6 Months

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2. Property Improvement Loan Program

Residential Dwelling(s)	32 Days
Fire Safety Equipment Loans	20 years and
for Health Care Facility	32 Days

(2) Refinance of an Existing Title I Property Improvement Loan

A Property Improvement Loan may be refinanced for an extended period, in accordance with the following rules:

- the maximum term permitted for a Loan that refinances a Borrower's existing insured Property Improvement Loan must not exceed the maximum term permitted for its property type or loan purpose; and
- the total time period from the date of the original Loan to the final maturity of the refinanced Loan must not exceed the maximum term permitted for a new Loan plus 9 years and 11 months. This particular limitation applies to all property types and loan purposes.

iii. Loan Insurance Premium

- FHA collects an annual insurance premium charge for eligible Loans originated under the FHA Title I Property Improvement Loan program.
- The Title I Property Improvement Loan program does not require the payment of an Upfront Insurance Premium (UFIP).

(A) Annual Loan Insurance Premium

The annual loan insurance premium is an obligation of the Lender. The Lender may pass the premium charge on to the Borrower, provided that such charges are fully disclosed.

HUD collects the insurance premium in annual installments of 1 percent of the original loan amount.

The loan insurance premium must be paid for the full term of the Loan unless the Loan is prepaid in full or the Lender files a claim with FHA.

(B) Passing Loan Insurance Premium to Borrower

Lenders must disclose the loan insurance charges to be paid by the Borrower according to <u>required laws</u>, and <u>RESPA</u> and <u>TILA</u> as applicable. Additional or separate disclosure agreements for the fee is not required to be in the file.

c. Property Eligibility

i. Appraisals

An appraisal is not required for the origination of a Title I Property Improvement Loan.

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1 An appraisal may be required in the event of a release or substitution of security. 2 ii. Eligible Improvements 3 (A) Standard 4 The loan proceeds must be used to finance eligible property improvements and financeable fees and charges. 5 The improvements must substantially protect or improve the basic livability or utility 6 of the Property. In general, improvements must be permanent, hard wired or hard 7 8 plumbed to the Property. 9 The Lender must carefully review the list of eligible improvements below to confirm 10 that a proposed improvement is eligible. The loan proceeds may only be used to finance improvements that are started after 11 loan approval. If the Lender determines that emergency action was needed to repair 12 damage resulting from a disaster in a major disaster area declared by the President, 13 14 the Lender may grant an exception to the standard. 15 The improvements must not include any leased component, including any energy systems, not fully owned by the Borrower. 16 (B) Required Documentation 17 18 The improvements must be specified on form HUD-56001, Credit Application for 19 Property Improvement Loan. 20 The Lender must obtain supporting documents to determine if all improvements are eligible for Title I financing and to determine the reasonableness of the cost for the 21 22 material and labor described. 23 (C) Use of a Contractor 24 If the Borrower plans to use a contractor to complete the improvements, the Lender 25 must obtain a copy of the proposal or contract that describes in detail the work to be performed and the estimated or actual cost. 26 27 **Lead Based Paint Repair** 28 For improvement of a Property built before 1978 (or of unknown construction year) 29 that involves disturbance, treatment of defective paint surfaces, alteration, renovation, repair, or painting of more than six square feet of interior paint per room or more than 30 20 square feet of exterior painted surface, or involves window replacement or 31 32 demolition of painted surface areas, the Lender must ensure the work was performed 33 by a state or Environmental Protection Agency (EPA) certified renovation contractor.

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2. Property Improvement Loan Program

1	Refer to 24 CFR § 200.810(c)(d) and 40 CFR § 745, subparts E and Q, for more
2	information.

(D) Borrower Acting as Own Contractor

If a Borrower is acting as their own contractor, the Lender must obtain a detailed written description of the work to be performed including the materials to be furnished and their estimated cost. A Loan may include financing for the cost of technical tradesmen or other subcontractors hired by the Borrower, but it may not include financing for the Borrower's labor. This documentation must be presented in the form of a budget and include:

- the quantity and cost of materials;
- the size, type, style, grade, color, etc. of materials;
- the type and cost of subcontracted labor, if applicable; and
- the state or EPA renovation contractor certificate of the technical tradesmen or
 other subcontractors for work on a Property built before 1978 (or of unknown
 year of construction) with a scope as described in Lead Based Paint Repair.

The loan proceeds must not be used to compensate the Borrower for labor performed.

(E) Eligible Property Improvements

Eligible Repairs and Improvements

- abutments
- acoustical tile
- additions to Structures
- air conditioning (central)
- alteration
- aluminum panels
- apartments, cooperatives and condominiums (interior improvements only)
- asphalt siding
- attic fans
- auditoriums
- awnings (aluminum, canvas, plastic, wood)
- back bars
- barns
- basements
- bathrooms (fixtures and connections)
- bathtubs (enclosures)
- bins (coal, grain, concrete)
- black topping

- laundry chutes
- laundry tubs
- lightning rods
- meters, electric and water, gas (replacement only)
- molding
- painting
- paneling
- papering
- partitions
- patios
- pavers
- paving
- piers (not for common use)
- pillars
- plastering
- plumbing
- pole barns, permanent foundation
- porches
- pumps
- radiators, permanently installed

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Eligible Repairs and Improvements

- blinds (venetian, vertical)
- blowers (furnace)
- boathouses
- boat slips
- boilers
- bookcases (built-in)
- brick shingles or siding
- built-in kitchen equipment
- bulkheads
- bunkhouses
- burglar alarms
- burglar bars/decorative bars
- burners (furnace, oil, gas)
- cabinets
- canopies
- carpet; wall-to-wall
- carports
- casements; window
- ceilings
- cellar; storm, wine
- cesspools
- chimneys
- choir lofts
- churches (Structure only)
- chutes; coal, grain, laundry
- cleaning, steam, before painting
- cold storage rooms
- coating; roofing
- commercial buildings
- composition; flooring paneling, shingles, siding
- condominium, Single Family \$25,000 (inside of unit only)
- check ownership of individual unit plus ownership of portion of common area
- check ownership of entire building
- converting; structural
- co-op, cooperative (inside improvements only maximum loan amount is \$7,500)
- cottages
- curbing (Single Family Property only)
- decks, gazebos not for hot tub use or

(covers not eligible)

- railings
- registers, heat
- reservoirs (not for irrigation
- resurfacing
- retaining walls
- roof coating
- roofing
- safes/vaults (permanently affixed)
- sandblasting
- sanding
- sashes
- screening
- seawalls (non-floating)
- security system, hardwired into electric system
- sewerage systems
- septic tank replacement of existing
- shingles
- shower doors
- shutters
- sidewalks (private)
- siding (cement, ceramic tile, brick, wood, aluminum)
- sills
- silo
- sinks
- slating
- smokestack
- solar and wind energy systems
- sunspace/solarium permanently installed for use as a sun room, family room
- spa permanently installed inside the Structure
- sprinkler systems, fire
- stairs
- stalls
- steam cleaning
- steeples
- stokers

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Eligible Repairs and Improvements

- around a swimming pool
- dishwasher; hard wire, hard plumb
- docks
- door chimes not for common use
- doors (storm, screen, fire)
- downspouts
- drain fields septic
- drilling; wells (must be a Structure on Property and previously had water supply)
- drive-in (Structure only, not trade fixtures or equipment)
- driveways, private (not for multifamily Properties)
- ducts
- duplex (lot and both dwellings owned by same person = multifamily loan limits, \$24,000)
- electric garage door opener (hard wire)
- electric light fixtures, lines, poles
- electric light systems
- elevators
- escalators
- exhaust fans
- exterior finishing work
- fans (permanently attached to Structure, non-window)
- fences (chain link, brick, wood, iron)
- finishing work
- fire escapes
- fireplaces (indoor)
- floodlight (non-display)
- flooring
- flour mills, sheds
- flues
- foundations
- fronts, commercial buildings or residential Structures
- furnaces; coal, floor, gas, oil
- garages
- garbage disposal units
- gas heating systems
- gazebo, on permanent foundation

- stone siding
- storm cellars
- storm panels
- stuccoing
- studding
- structural changes
- tanks; fuel (residential Property only, not commercial); milk, septic, storage, water
- tiles (ceiling, ceramic, cement, floor (permanently affixed, plastic, acoustical)
- termite control, with replacement of damage
- trees (diseased or damaged and hazard to Structure on Property)
- trestles
- troughs
- utility building (sheds);
 permanent masonry /concrete foundation
- vaults
- venetian/mini blinds
- ventilation hoods
- ventilation systems
- vents
- verandas
- wall heaters
- wallboards
- walls
- warehouses
- washtubs
- water conditioners permanently installed in plumbing system (purifiers, softeners, sterilizers)
- water coolers (permanent)
- water heaters
- water systems
- water tower
- water wells (must have Structure on Property and previously had water supply)

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Eligible Repairs and Improvements

- generators, permanently installedglass tinting
- grates, furnace guard rails
- guttering
- heat control devices
- incinerators
- insulation
- interior work
- ironing board, permanently installed
- Jacuzzi, inside bathroom
- jalousies

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• lattice work

- waterproofing
- weatherstripping
- wells (together with pumping and piping equipment)
- Special Energy System (e.g., solar, wind) (eligible only for furnishing power to residential Structure)
- windows (screen, storm, thermal)
- wiring; electric
- wood shingles (siding, paneling)

Other improvements that comply with the <u>Eligible Improvement Standards</u> are acceptable.

iii. Ineligible Improvements

Ineligible Improvements refer to improvements or products that do not become a permanent part of the Real Property and improvements or products that are considered luxury items.

The following products and improvements are ineligible and *may not* be financed with a Title I Property Improvement Loan:

- air conditioner (placed in a window, and not permanently affixed to the Property)
- asbestos siding
- barbecue pits
- barn cleaners
- bath houses
- cabana room
 - clothes lines and poles
- debt consolidation
 - deck around swimming pool
 - demolition (Structure must be replaced at the same time)
 - dishwashers (portable), must be part of the sink
- docks, floating
- drills (equipment type)
 - dumbwaiters
 - equipment (industrially; farm or dairy)
- exterior hot tubs, saunas, spas, or whirlpools baths
 - fire extinguishers
 - flower boxes
 - food mixers

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- 1 freezer (only built-in freezers are eligible) 2 grandstands 3 greenhouses (except commercial) 4 hangars (airplane) 5 hay dryers irrigations systems 6 7 kennels 8 kitchen appliances (designed or manufactured not to be built into or permanently 9 affixed to the Structure) 10 landscaping 11 lathes 12 moving Structures (eligible if move is on the same lot) 13 14 outdoor fireplaces 15 ovens (must be built in) penthouses (must be an existing penthouse for improvements to be eligible) 16 photomurals 17 18 satellite dishes 19 swimming pools 20 swimming pool enclosures tree surgery/removal (eligible if tree is diseased and a hazard to the Structure) 21 22 television antennae 23 valance boards 24 waterproofing (pumping or injecting any substance in the earth adjacent to or beneath the foundation or basement floor) 25 26 d. Underwriting the Borrower The Lender must evaluate the Borrower's ability and willingness to repay the Title I Property 27 28 Improvement Loan. The Lender must exercise prudent underwriting practices when evaluating the creditworthiness of the Borrower in order to limit the risk of Default. 29 30 Title I Loans are not eligible for automated underwriting through the Technology Open To 31 Approved Lenders (TOTAL) Scorecard.
- Once it is determined that the Borrower is eligible, analysis of the Borrower's credit must be performed for final loan approval, including review and documentation of the following:
 - credit requirements;
 - liabilities:

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- income requirements;
- evaluating liabilities and debt;
- asset requirements;
- debt ratio; and
- compensating factors.

l	1. C1	redit Requirements
2	(A) General Credit Requirements
3 4		HA's general credit policy requires Lenders to analyze the Borrower's credit story, liabilities, and debts to determine creditworthiness.
5 6		te Lender must obtain a merged credit report from an independent consumer porting agency.
7 8 9	the	the Lender must obtain a credit report for each Borrower who will be obligated on the loan Note. The Lender may obtain a joint report for individuals with joint counts.
10 11 12 13	co on	efore making a determination on the creditworthiness of an applicant, a Lender must induct an interview to resolve any material discrepancies between the information the loan application and information on the credit report to determine accurate and implete information.
14 15		ne Lender is not required to obtain a credit report for non-credit qualifying reamline Refinance transactions.
16	(B) Types of Credit History
17		(1) Traditional Credit
18 19 20		Lenders must pull a credit report that draws and merges information from at least two national credit bureaus. Lenders are prohibited from developing Non-Traditional Credit Reports (NTCR) to use in place of a traditional credit report.
21 22		If the credit report generates a credit score, the Lender must utilize traditional credit history.
23		(a) Requirements for the Credit Report
24 25 26 27 28		Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Lender must retain copies of all credit reports.
29 30 31 32 33		 The credit report must include: the name of the Lender ordering the report; the name, address, and telephone number of the consumer reporting agency; the name and SSN of each Borrower; and

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

2	• the primary repository from which any particular information was pulled, for each account listed.
3 4	A truncated SSN is acceptable for FHA loan insurance purposes provided that the loan application captures the full nine-digit SSN.
5	The credit report must also include:
6	 all inquiries made within the last 90 Days;
7	 all credit and legal information not considered obsolete under the
8	FCRA, including information for the last seven years regarding:
9	o bankruptcies;
10	o Judgments;
11	o lawsuits;
12	o foreclosures; and
13	o tax liens; and
14	• for each Borrower debt listed:
15	o the date the account was opened;
16	o high credit amount;
17	o required monthly payment amount;
18	o unpaid balance; and
19	o payment history.
20	(b) Updated Credit Report or Supplement to the Credit Report
21	The Lender must obtain an updated credit report or supplement if the
22	underwriter identifies material inconsistencies between any information in the
23	case binder and the original credit report.
24	(2) Non-Traditional Credit
25	For Borrowers without a credit score, the Lender must either obtain an NTCR
26	from a credit reporting company or independently develop the Borrower's credit
27	history using the requirements outlined below.
28	(a) Non-Traditional Credit Report
29	(i) Definition
30	An NTCR is designed to access the credit history of a Borrower who does
31	not have the types of trade references that appear on a traditional credit
32	report and used either as:
33	 a substitute for a traditional credit report; or
34	 a supplement to a traditional credit report that has an insufficient
35	number of trade items reported to generate a credit score.

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1	(u) Standard
2 3	Lenders may use an NTCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:
4	• the existence of the credit providers;
5 6	 that the credit was actually extended to the Borrower; and the creditor has a published address or telephone number.
7 8 9 10	The NTCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the: • creditor's name;
11	 date of opening;
12	• high credit;
13	• current status of the account;
14	 required monthly payment;
15	• unpaid balance; and
16	• payment history in the delinquency categories (for example, 0x30
17	and $0x60$).
18	(b) Independent Verification of Non-Traditional Credit Providers
19 20 21	The Lender may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.
22 23 24	To verify the existence of each credit provider, the Lender must review public records from the State, county, or city or other documents providing a similar level of objective information.
25 26 27 28 29 30	 To verify credit information, the Lender must: use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
31 32 33 34 35	To verify the Borrower's rental payment history, the Lender must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment for the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.

1	(c) Sufficiency of Non-Traditional Credit References
2 3	To be sufficient to establish the Borrower's credit, the non-traditional credit history must include three credit references, including at least one of the
4	following:
5	• rental housing payments (subject to independent verification if the
6	Borrower is a renter);
7	• telephone service; or
8	 utility company reference (if not included in the rental housing
9	payment), including:
10	o gas;
11	o electricity;
12	o water;
13	o television service; or
14	o Internet service.
15 16	If the Lender cannot obtain all three credit references from the list above, the
17	Lender may use the following sources of unreported recurring debt:
18	 insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance);
19	 payment to child care providers made to businesses that provide such
20	services;
21	• school tuition;
22	 retail store credit cards (e.g., from department, Furniture, or appliance
23	stores, or specialty stores);
24	• rent-to-own (e.g., Furniture, appliances);
25	 payment of that part of medical bills not covered by insurance;
26	 a documented 12-month history of savings evidenced by regular
27	deposits resulting in an increased balance to the account that:
28	o were made at least quarterly;
29	o were not payroll deducted; and
30	o caused no Insufficient Funds (NSF) checks;
31	 an automobile lease;
32	• a personal loan from an individual with repayment terms in writing
33	and supported by cancelled checks to document the payments; or
34	• a documented 12-month history of payment by the Borrower on an
35	account for which the Borrower is an authorized user.
36	(3) Minimum Decision Credit Score
37	(a) Definition
38	The Minimum Decision Credit Score (MDCS) refers to the credit score
39	reported on the Borrower's credit report when all reported scores are the
40	same. Where three differing scores are reported, the middle score is the

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MDCS. Where two differing scores are reported, the MDCS is the lowest 1 2 score. Where only one score is reported, that score is the MDCS. 3 An MDCS is determined for each Borrower. 4 (b) Standard 5 HUD does not require a minimum credit score requirement for the Title I Property Improvement Loan program. 6 7 (c) Required Documentation/Data Entry 8 When credit scores are available, the Lender must report all scores in FHAC 9 for each Borrower. 10 (C) Evaluating Credit History 11 (1) General Credit The underwriter must examine the Borrower's overall pattern of credit behavior, 12 not just isolated unsatisfactory or slow payments, to determine the Borrower's 13 creditworthiness. 14 The Lender must not consider the credit history of a Non-Borrowing Spouse. 15 16 (2) Types of Payment Histories The underwriter must evaluate the Borrower's payment histories in the following 17 order: (1) previous housing expenses and related expenses, including utilities; (2) 18 19 installment debts; and (3) revolving accounts. 20 (a) Satisfactory Credit 21 The underwriter may consider a Borrower to have an acceptable payment 22 history if the Borrower has made all housing and installment debt payments 23 on time for the previous 12 months and has no more than two 30-Day late 24 Loan Payments or installment payments in the previous 24 months. The underwriter may approve the Borrower with an acceptable payment 25 26 history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months. 27 28 Major derogatory credit excludes medical collections. On revolving accounts, 29 major derogatory credit must include any payments made more than 90 Days 30 after the due date, or three or more payments more than 60 Days after the due 31 date.

1	(b) Payment History Requiring Additional Analysis
2 3	If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.
4 5 6 7 8	The Lender must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Lender must document this analysis in the case binder. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.
9 10 11	The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.
12	(3) Payment History on Housing Obligations
13 14 15 16 17 18	 The Lender must determine the Borrower's housing obligation payment history through: the credit report; verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower); verification of Loan Payments received directly from the loan Servicer; or a review of canceled checks that cover the most recent 12-month period.
20 21 22 23 24	The Lender must verify and document the previous 12 months of housing history. For Borrowers who indicate they are living rent-free, the Lender must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent-free.
25 26 27	A Loan that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.
28	(4) Collection Accounts
29	(a) Definition
30 31	A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.
32	(b) Standard
33 34	The Lender must determine if collection accounts were a result of: • the Borrower's disregard for financial obligations;

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1 2	the Borrower's inability to manage debt; orextenuating circumstances.
3	(c) Required Documentation
4 5	The Lender must document reasons for approving a Loan when the Borrower has any collection accounts.
6 7 8 9	The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.
10	(5) Charge Off Accounts
11	(a) Definition
12 13	Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.
14	(b) Standard
15 16 17 18	 The Lender must determine if Charge Off Accounts were a result of: the Borrower's disregard for financial obligations; the Borrower's inability to manage debt; or extenuating circumstances.
19	(c) Required Documentation
20 21	The Lender must document reasons for approving a Loan when the Borrower has any Charge Off Accounts.
22 23 24 25	The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.
26	(6) Disputed Derogatory Credit Accounts
27	(a) Definition
28 29 30	Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

1	(b) Standard
2 3 4	The Lender must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.
5 6 7	The following items may be excluded from consideration in the underwriting analysis: • disputed medical accounts; and
8 9 10 11	 disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Lender includes a copy of the police report or other documentation from the creditor to support the status of the account in the case binder.
12	(c) Required Documentation
13 14 15	If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.
16 17 18 19	If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Lender must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.
20	(7) Judgments
21	(a) Definition
22 23 24	Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.
25	(b) Standard
26 27	The Lender must verify that court-ordered Judgments are resolved or paid off prior to or at closing.
28 29 30	Judgments of a Non-Borrowing Spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.
31 32 33 34 35	Regardless of the amount of outstanding Judgments, the Lender must determine if the Judgment was a result of: • the Borrower's disregard for financial obligations; • the Borrower's inability to manage debt; or • extenuating circumstances.

1	Exception
2 3 4 5 6 7	A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured Loan lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
8 9	The Lender must include the payment amount in the agreement in the calculation of the Borrower's DTI ratio.
10 11	The Lender must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.
12	(c) Required Documentation
13 14 15 16 17 18	 The Lender must provide the following documentation: evidence of payment in full, if paid prior to settlement; the payoff statement, if paid at settlement; or the payment arrangement with the creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.
19	(8) Bankruptcy
20	(a) Standard: Chapter 7
21 22 23 24 25 26	A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Loan if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time, the Borrower must have: • re-established good credit; or • chosen not to incur new credit obligations.
27 28 29 30 31	An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower: • can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and • has since exhibited a documented ability to manage their financial
32 33	affairs in a responsible manner. (b) Standard: Chapter 13
34 35 36	A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Loan, if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.

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1 The Lender must determine that during this time, the Borrower's payment 2 performance has been satisfactory and all required payments have been made 3 on time, and the Borrower has received written permission from bankruptcy 4 court to enter into the loan transaction. 5 (c) Required Documentation 6 If the credit report does not verify the discharge date or additional 7 documentation is necessary to determine if any liabilities were discharged in 8 the bankruptcy, the Lender must obtain the bankruptcy and discharge 9 documents. The Lender must also document that the Borrower's current situation indicates 10 that the events which led to the bankruptcy are not likely to recur. 11 12 (9) Foreclosure and Deed-in-Lieu of Foreclosure 13 (a) Standard 14 A Borrower is generally not eligible for a new FHA-insured Loan if the Borrower had a foreclosure or a Deed-in-Lieu (DIL) of Foreclosure in the 15 three-year period prior to the date of case number assignment. 16 17 This three-year period begins on the date of the DIL or the date that the 18 Borrower transferred ownership of the Property to the foreclosing 19 Entity/designee. **Exception** 20 21 The Lender may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were 22 23 beyond the control of the Borrower, such as a serious illness or death of a 24 wage earner, and the Borrower has re-established good credit since the 25 foreclosure. 26 Divorce is not considered an extenuating circumstance. An exception may, 27 however, be granted where a Borrower's Mortgage was current at the time of 28 the Borrower's divorce, the ex-spouse received the Property, and the 29 Mortgage was later foreclosed. 30 The inability to sell the Property due to a job transfer or relocation to another 31 area does not qualify as an extenuating circumstance.

1	(b) Required Documentation
2 3 4	If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.
5 6 7 8	If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.
9	(10) Pre-Foreclosure Sales (Short Sales)
10	(a) Definition
11 12 13 14	Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.
15	(b) Standard
16 17 18	A Borrower is generally not eligible for a new FHA-insured Loan if they relinquished a Property through a Short Sale within three years from the date of case number assignment.
19	This three-year period begins on the date of transfer of title by Short Sale.
20	(i) Exception for Borrower Current at the Time of Short Sale
21 22 23 24 25 26 27	 A Borrower is considered eligible for a new FHA-insured Loan if, from the date of case number assignment for the new Loan: all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and installment debt payments for the same time period were also made within the month due.
28	(ii) Exception for Extenuating Circumstances
29 30 31 32 33	The Lender may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

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Divorce is not considered an extenuating circumstance. An exception may, 1 2 however, be granted where a Borrower's Mortgage was current at the time 3 the Borrower's divorce, the ex-spouse received the Property, and there 4 was a subsequent Short Sale. 5 The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance. 6 7 (c) Required Documentation 8 If the credit report does not indicate the date of the Short Sale, the Lender 9 must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer. 10 If the Short Sale was the result of a circumstance beyond the Borrower's 11 control, the Lender must obtain an explanation of the circumstance and 12 13 document that the circumstance was beyond the Borrower's control. 14 (11) Credit Counseling/Payment Plan Participating in a consumer credit counseling program does not disqualify a 15 Borrower from obtaining an FHA-insured Loan, provided the Lender documents 16 17 that: 18 one year of the pay-out period has elapsed under the plan; the Borrower's payment performance has been satisfactory and all 19 20 required payments have been made on time; and the Borrower has received written permission from the counseling agency 21 to enter into the loan transaction. 22 (D) Evaluating Liabilities and Debt 23 24 (1) General Liabilities and Debt 25 (a) Standard 26 The Lender must determine the Borrower's monthly liabilities by reviewing 27 all debts listed on the credit report, form HUD-56001, Credit Application for 28 Property Improvement Loan, and required documentation. 29 All applicable monthly liabilities must be included in the qualifying ratio. 30 Monthly liabilities do not have to be included if they will be paid off within 6 months. 31 32 Accounts for which the Borrower is an authorized user must be included in a 33 Borrower's DTI ratio unless the Lender can document that the primary 34 account holder has been making regular payments on the account for the 35 previous 12 months.

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1 2 3	Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.
4 5 6 7	Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.
8	(b) Required Documentation
9 10 11	The Lender must document that the funds used to pay off debts prior to closing came from an <u>acceptable source</u> , and the Borrower did not incur new debts that were not included in the DTI ratio.
12	(2) Undisclosed Debt and Inquiries
13	(a) Standard
14 15 16 17 18 19	 When a debt or obligation is revealed during the application process or the interview with the Borrower that was not listed on the loan application and/or credit report, the Lender must: verify the actual monthly payment amount; and include the monthly payment amount in the agreement in the Borrower's liabilities and debt.
20 21 22	The Lender must obtain a written explanation from the Borrower for all material inquiries shown on the credit report that were made in the last 90 Days.
23 24	Inquiries from utilities and insurance companies are not considered material inquiries.
25	(b) Required Documentation
26 27	The Lender must document all undisclosed debt and support for its analysis of the Borrower's debt.
28	(3) Federal Debt
29	(a) Definition
30 31	Federal Debt refers to debt owed to the federal government for which regular payments are being made.

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1	(b) Standard
2 3	The Lender must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total DTI.
4	(c) Required Documentation
5 6	The Lender must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.
7	(4) Alimony, Child Support, and Other Maintenance
8	(a) Definition
9 10	Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.
11	(b) Standard
12 13 14 15	For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Lender's calculation of the Borrower's gross income, the Lender must verify and include the monthly obligation in its calculation of the Borrower's debt.
16 17 18	Child support and other maintenance are to be treated as a recurring liability and the Lender must include the monthly obligation in the Borrower's liabilities and debt.
19	(c) Required Documentation
20 21	The Lender must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.
22 23 24	The Lender must also obtain the Borrower's pay stubs covering no less than 28 Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.
25	(d) Calculation of Monthly Obligation
26 27	The Lender must calculate the Borrower's monthly obligation from the greater of:
28 29 30	 the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or the monthly amount of the garnishment.

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1	(5) Deferred Obligations
2	(a) Definition
3 4 5	Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.
6	(b) Standard
7 8	The Lender must verify and include deferred obligations in the calculation of the Borrower's debt.
9	(c) Required Documentation
10 11 12 13	The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Lender must obtain evidence of the anticipated monthly payment obligation, if available.
14	(d) Calculation of Monthly Obligation
15 16	The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.
17 18 19	If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
20	(6) Student Loans
21	(a) Definition
22	Student Loan refers to liabilities incurred for educational purposes.
23	(b) Standard
24 25	The Lender must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.
26	(c) Required Documentation
27	If the payment used for the monthly obligation is:
28 29 30 31	 less than 1 percent of the outstanding balance reported on the Borrower's credit report, and less than the monthly payment reported on the Borrower's credit report;

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1 2 3	the Lender must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.
4	(d) Calculation of Monthly Obligation
5 6 7 8 9 10 11	Regardless of the payment status, the Lender must use either: • the greater of: • 1 percent of the outstanding balance on the loan; or • the monthly payment reported on the Borrower's credit report; or • the actual documented payment, provided the payment will fully amortize the loan over its term.
13	(a) Definition
14 15 16 17	Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of Principal and Interest (P&I). A loan secured by an interest in a timeshare must be considered an Installment Loan.
18	(b) Standard
19 20	The Lender must include the monthly payment shown on the credit report to calculate the Borrower's debts.
21 22 23	If the credit report does not include a monthly payment for the loan, the Lender must use the amount of the monthly payment shown in the loan agreement or payment statement.
24	(c) Required Documentation
25 26	If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.
27 28 29 30 31	If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Lender must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

(a) Definition
A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.
(b) Standard
The Lender must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the Lender must use the payment shown on the current account statement or 5 percent of the outstanding balance.
(c) Required Documentation
The Lender must use the credit report to document the terms, balance and payment amount on the account, if available.
Where the credit report does not reflect the necessary information on the charge account, the Lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.
(9) 30-Day Accounts
(a) Definition
30-Day Accounts refer to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.
(b) Standard
The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's debt ratio. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.
(c) Required Documentation
The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months or life of the account, if less than 12 months. The Lender must use the credit report to

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1 2	document the balance, and must document sufficient funds are available to pay off the balance after loan closing.
3	(10) Business Debt in Borrower's Name
4	(a) Definition
5 6 7	Business Debt in the Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.
8	(b) Standard
9 10 11	When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business.
12	(c) Required Documentation
13 14 15 16	When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds, and the debt was considered in the cash flow analysis of the Borrower's business.
17	(11) Disputed Derogatory Credit Accounts
18	(a) Definition
19 20 21	Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.
22	(b) Standard
23 24 25	If the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the Lender must include a monthly payment in the Borrower's debt calculation.
26 27 28 29	 The following items are excluded from the cumulative balance: disputed medical accounts; and disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.
30 31	Disputed Derogatory Credit Accounts of a Non-Borrowing Spouse in a community property state are not included in the cumulative balance.

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1 2	(12) Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report
3	(a) Definition
4	Non-Derogatory Disputed Accounts include the following types of accounts:
5	 disputed accounts with zero balance;
6	 disputed accounts with late payments aged 24 months or greater; or
7	 disputed accounts that are current and paid as agreed.
8	(b) Standard
9	If a Borrower is disputing non-derogatory accounts, or is disputing accounts
10	which are not indicated on the credit report as being disputed, the Lender must
11	analyze the effect of the disputed accounts on the Borrower's ability to repay
12	the Loan. If the dispute results in the Borrower's monthly debt payments
13	utilized in computing the DTI ratio being less than the amount indicated on
14	the credit report, the Borrower must provide documentation of the lower
15	payments.
16	(13) Contingent Liabilities
17	(a) Definition
18	A Contingent Liability is a liability that may result in the obligation to repay
19	only where a specific event occurs. For example, a contingent liability exists
20	when an individual can be held responsible for the repayment of a debt if
21	another party defaults on the payment. Contingent liabilities may include
22	cosigner liabilities and liabilities resulting from a loan assumption without
23	release of liability.
24	(b) Standard
25	The Lender must include monthly payments on contingent liabilities in the
26	calculation of the Borrower's monthly obligations unless the Lender verifies
27	that there is no possibility that the debt holder will pursue debt collection
28	against the Borrower, should the other party default, or the other party has
29	made 12 months of timely payments.
30	(c) Required Documentation
31	(i) Mortgage Assumptions
32	The Lender must obtain the agreement creating the contingent liability or
33	assumption agreement, and the deed showing transfer of title out of the
34	Borrower's name.
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1	(ii) Cosigned Liabilities
2 3 4 5	If the cosigned liability is not included in the monthly obligation, the Lender must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of Delinquent payments on the loan.
6	(iii)Court Ordered Divorce Decree
7 8	The Lender must obtain a copy of the divorce decree ordering the spouse to make payments.
9	(d) Calculation of Monthly Obligation
10 11	The Lender must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.
12	(14) Collection Accounts
13	(a) Definition
14 15	A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.
16	(b) Standard
17 18 19 20 21 22 23 24 25	 If the credit reports used in the analysis show cumulative outstanding collection account balances of \$2,000 or greater, the Lender must: verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds; verify that the Borrower has made payment arrangements with the creditor; or if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.
26 27 28 29	Collection accounts of a Non-Borrowing Spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless specifically excluded by state law.
30	(c) Required Documentation
31 32 33	 The Lender must provide the following documentation: evidence of payment in full, if paid prior to settlement; the payoff statement, if paid at settlement; or

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1 2	• the payment arrangement with the creditor, if not paid prior to or at settlement.
3 4	If the Lender uses 5 percent of the outstanding balance no documentation is required.
5	(15) Charge Off Accounts
6	(a) Definition
7 8	A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.
9	(b) Standard
10 11	Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.
12	(16) Private Savings Clubs
13	(a) Definition
14 15	Private Savings Clubs refer to non-traditional methods of saving by making deposits into a member-managed resource pool.
16	(b) Standard
17 18 19	If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt.
20 21 22	The Lender must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.
23	(c) Required Documentation
24 25	The Lender must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.
26	(17) Obligations Not Considered Debt
27 28 29 30	Obligations not considered debt include: • medical collections; • federal, state, and local taxes, if not delinquent and no payments required; • automatic deductions from savings, when not associated with another type
31	of obligation;

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1	Federal Insurance Contributions Act (FICA) and other retirement
2	contributions, such as 401(k) accounts;
3	• collateralized loans that secure cash, stock, or bond assets;
4	• utilities;
5	• child care;
6	• commuting costs;
7	• union dues;
8	• insurance, other than property insurance;
9	open accounts with zero balances; and
10	 voluntary deductions, when not associated with another type of obligation.
11	ii. Income Requirements
12	(A) Definition of Effective Income
13	Effective Income refers to income that may be used to qualify a Borrower for a Loan.
14	Effective Income must be reasonably likely to continue through at least the first three
15	years of the Loan, and meet the specific requirements described below.
16	(B) General Income Requirements
17	The Lender must document the Borrower's income and employment history, verify
18	the accuracy of the amounts of income being reported, and determine if the income
19	can be considered as Effective Income in accordance with the requirements listed
20	below.
21	The Lender may only consider income if it is legally derived and, when required,
22	properly reported as income on the Borrower's tax returns.
23	Negative income must be subtracted from the Borrower's gross monthly income, and
24	not treated as a recurring monthly liability unless otherwise noted.
25	(C) Employment Income
26	(1) Definition
27	Employment Income refers to income received as an employee of a business that
28	is reported on IRS Form W-2.
29	(2) Standard
30	The Lender may use Employment Income as Effective Income in accordance with
31	the standards provided for each type of Employment Income.

1	(3) Required Documentation
2	For all Employment Income, the Lender must verify the Borrower's most recent
3	two years of employment and income, and document it using one of the following
4	methods.
5	(a) Traditional Current Employment Documentation
6	The Lender must obtain the most recent pay stubs covering a minimum of 30
7	Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28
8	consecutive Days) that show the Borrower's year-to-date earnings, and one of
9	the following to verify current employment:
10	• a written Verification of Employment (VOE) covering two years; or
11	 an electronic verification acceptable to FHA.
12	Re-verification of employment must be completed within 10 Days prior to
13	date of Note. Verbal re-verification of employment is acceptable.
14	(b) Alternative Current Employment Documentation
15	If using alternative documentation, the Lender must:
16	 obtain copies of the pay stub(s) covering the most recent 30-Day
17	period (if paid weekly or bi-weekly, pay stubs must cover a minimum
18	of 28 consecutive Days);
19	 obtain copies of the original IRS W-2 forms from the previous two
20	years; and
21	document current employment by telephone, sign and date the
22 23	verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.
24	Re-verification of employment must be completed within 10 Days prior to
25	loan Disbursement. Verbal re-verification of employment is acceptable.
26	(c) Past Employment Documentation
27	Direct verification of the Borrower's employment history for the previous two
28	years is not required if all of the following conditions are met:
29	 the current employer confirms a two year employment history, or a
30	paystub reflects a hiring date;
31	 only base pay is used to qualify (no overtime or bonuses); and
32	• the Borrower executes <u>IRS Form 4506</u> , <i>Request for Copy of Tax</i>
33	Return, or IRS Form 8821, Tax Information Authorization, for the
34	previous two tax years.
35	If the applicant has not been employed with the same employer for the
36	previous two years and/or not all conditions immediately above can be met,

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1 2 3 4 5 6 7	 then the Lender must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history: W-2(s); VOE(s); electronic verification acceptable to FHA; and evidence supporting enrollment in school or the military during the most recent two full years.
8	(D) Primary Employment
9	(1) Definition
10 11 12	Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.
13	(2) Standard
14	The Lender may use primary income as Effective Income.
15	(3) Calculation of Effective Income
16	(a) Salary
17 18 19	For employees who are salaried and whose income has been and will likely be consistently earned, the Lender must use the current salary to calculate Effective Income.
20	(b) Hourly
21 22 23	For employees who are paid hourly, and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.
24 25 26 27	For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.
28	(E) Part-Time Employment
29	(1) Definition
30 31	Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

E. Title I Insured Programs

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2. Property Improvement Loan Program

(2) Standard

2 3 4	The Lender may use part-time income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.
5	(3) Calculation of Effective Income
6	The Lender must average the income over the previous two years. If the Lender
7	can document an increase in pay rate the Lender may use a 12-month average of
8	hours at the current pay rate.
9	(F) Overtime and Bonus Income
10	(1) Definition
11	Overtime and Bonus Income refers to income that the Borrower receives in
12	addition to the Borrower's normal salary.

(2) Standard

The Lender may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the Lender documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

(3) Calculation of Effective Income

For employees with Overtime and Bonus Income, the Lender must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the Lender must use the current year's income.

(G)Seasonal Employment

(1) **Definition**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

- **E.** Title I Insured Programs
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1	(2) Standard
2 3 4 5 6	The Lender may consider Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Lender may consider unemployment income as Effective Income for those with effective seasonal employment income.
7	(3) Required Documentation
8 9 10	For seasonal employees with unemployment income, the Lender must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.
11	(4) Calculation of Effective Income
12 13 14	For employees with Employment Income from Seasonal Employment, the Lender must average the income earned over the previous two full years to calculate Effective Income.
15	(H)Employer Housing Subsidy
16	(1) Definition
17	Employer Housing Subsidy refers to employer-provided loan assistance.
18	(2) Standard
19	The Lender may utilize Employer Housing Subsidy as Effective Income.
20	(3) Required Documentation
21 22	The Lender must verify and document the existence and the amount of the housing subsidy.
23	(4) Calculation of Effective Income
24 25 26	For employees receiving an Employer Housing Subsidy, the Lender may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Loan Payment.
27	(I) Employed by Family-Owned Business
28	(1) Definition
29 30 31	Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower owns less than 25 percent.

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1	(2) Standard
2 3	The Lender may consider Family-Owned Business Income as Effective Income is the Borrower is not an owner in the family-owned business.
4	(3) Required Documentation
5 6 7	The Lender must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.
8 9 10 11	Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1 (IRS Form 1065) U.S. Return of Partnership Income, or an official letter from a certified public accountant on their business letterhead.
12 13	In addition to traditional or alternative documentation requirements, the Lender must obtain copies of signed personal tax returns or tax transcripts.
14	(4) Calculation of Effective Income
15	(a) Salary
16 17 18	For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Lender must use the current salary to calculate Effective Income.
19	(b) Hourly
20 21 22	For employees who are paid hourly, and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.
23 24 25 26	For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.
27	(J) Commission Income
28	(1) Definition
29 30	Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

E. Title I Insured Programs

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34 35 2. Property Improvement Loan Program

(2) Standard

2	The Lender may use Commission Income as Effective Income if the Borrower
3	earned the income for at least one year in the same or similar line of work and it is

reasonably likely to continue.

(3) Required Documentation

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, the Lender must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, the Lender must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, the Lender may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.

(4) Calculation of Effective Income

The Lender must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The Lender must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

(5) Unreimbursed Expenses

The Lender must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review <u>Appendix 2.0: Analyzing IRS Forms</u>.

(K)Self-Employment Income

(1) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or "S" corporations; and
- partnerships.

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2. Property Improvement Loan Program

1 (2) Standard 2 (a) Minimum Length of Self-Employment 3 The Lender may consider self-employed borrower income if the Borrower has been self-employed for at least two years. 4 5 If the Borrower has been self-employed between one and two years, the Lender may only consider the income as Effective Income if the Borrower 6 was previously employed in the same line of work in which the Borrower is 7 self-employed or in a related occupation for at least two years. 8 9 (b) Stability of Self-Employment Income 10 Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 11 12 20 percent decline in Effective Income over the analysis period, the Lender 13 must document that the business income is now stable. 14 A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating 15 circumstance, the Borrower can demonstrate the income has been stable or 16 increasing for a minimum of 12 months, and the Borrower qualifies utilizing 17 the reduced income. 18 19 (3) Required Documentation (a) Individual and Business Tax Returns 20 21 The Lender must obtain complete individual and business federal income tax returns for the most recent two years, including all schedules. 22 23 In lieu of signed individual or business tax returns from the Borrower, the 24 Lender may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, 25 26 Tax Information Authorization, and tax transcripts directly from the IRS. 27 (b) Profit and Loss Statements and Balance Sheets 28 The Lender must obtain a year-to-date Profit and Loss (P&L) statement and 29 balance sheet if more than a calendar quarter has elapsed since the date of the 30 most recent calendar or fiscal year-end tax return was filed by the Borrower. 31 A balance sheet is not required for self-employed Borrowers filing Schedule C

income.

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Ε.	Title	I	Insured	F	Programs
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1 2 3	If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.
4	(c) Business Credit Reports
5 6	The Lender must obtain a business credit report for all corporations and "S" corporations.
7	(4) Calculation of Effective Income
8 9 10	The Lender must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in <u>Appendix 2.0: Analyzing IRS Forms</u> .
11 12 13 14 15	 The Lender must calculate gross Self-Employment Income by using the lesser of: the average gross Self-Employment Income earned over the previous two years; or the average gross Self-Employment Income earned over the previous one year.
16	(L) Additional Required Analysis of Stability of Employment Income
17	(1) Frequent Changes in Employment
18 19 20 21 22 23 24 25	 If the Borrower has frequently changed jobs more than three times in the prior 12-month period, or has changed lines of work, the Lender must take additional steps to verify and document the stability of the Borrower's Employment Income. The Lender must obtain: transcripts of training and education demonstrating qualification for a new position; or employment documentation evidencing continual increases in income and/or benefits.
26	(2) Addressing Gaps in Employment
27 28 29 30	For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if it can verify and document that: • the Borrower has been employed in the current job for at least six months
31 32 33	 at the time of case number assignment; and the Borrower has a two-year work history prior to the absence from employment using standard or alternative employment verification.

Ε.	Title	I	Insured	Pro	grams
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2.	Property	Improvement	Loan	Program
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1	(3) Addressing Temporary Reduction in Income
2	(a) Standard
3 4 5 6 7 8 9	For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that: • the Borrower intends to return to work; • the Borrower has the right to return to work; and • the Borrower qualifies for the Loan, taking into account any reduction of income due to the circumstance.
10 11	For Borrowers returning to work before or at the time of the first Loan Payment due date, the Lender may use the Borrower's pre-leave income.
12 13 14 15 16 17 18	For Borrowers returning to work after the first Loan Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement, up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.
19	(b) Required Documentation
20 21 22 23 24 25 26 27 28 29	 The Lender must provide the following documentation for Borrowers on temporary leave: a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return; documentation generated by the current employer confirming the Borrower's eligibility to return to current employer at the same level of hours/earnings; and documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through the intended date of return to work with their current employer.
30	(M) Other Sources of Effective Income
31	(1) Disability Benefits
32	(a) Definition
33 34 35	Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

1	(b) Required Documentation
2 3 4	The Lender must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Lender must obtain documentation that establishes award benefits to the Borrower.
5 6 7	If any disability income is due to expire within three years from the date of loan application, the Lender should treat that income as a <u>Temporary</u> <u>Reduction in Income</u> .
8 9 10 11 12	If the Notice of Award or equivalent document does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue. The Lender may not rely upon a pending or current reevaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.
13 14 15	Under no circumstance may the Lender inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.
16	(i) Social Security Disability
17 18 19 20 21 22 23 24	For Social Security Disability income, including Supplemental Security Income (SSI), the Lender must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents: • federal tax returns; • the most recent bank statement evidencing receipt of income from the SSA; • a Proof of Income Letter, also known as a "Budget Letter" or
252627	 "Benefits Letter" that evidences income from the SSA; or a copy of the Borrower's form <u>SSA-1099/1042S</u>, <i>Social Security Benefit Statement</i>.
28	(ii) VA Disability
29 30 31 32 33 34	 For VA disability benefits, the Lender must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the following documents: federal tax returns; or the most recent bank statement evidencing receipt of income from the VA.
35 36 37	If the Benefits Letter does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue for at least three years.

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1	(iii)Private Disability
2 3 4 5 6 7 8	For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents: • federal tax returns; or • the most recent bank statement evidencing receipt of income from the insurance provider.
9	(c) Calculation of Effective Income
10 11	The Lender must use the most recent amount of benefits received to calculate Effective Income.
12	(2) Alimony, Child Support, or Maintenance Income
13	(a) Definition
14 15 16	Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.
17	(b) Required Documentation
18 19 20	The Lender must obtain a copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.
21 22 23 24	When using a final divorce decree, legal separation agreement or court order, the Lender must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.
25 26	The Lender must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
27 28 29	The Lender must provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
30	(c) Calculation of Effective Income
31 32 33 34	When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support or Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.

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1 2 3 4	When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support or Maintenance Income for the most recent six months, the Lender may use the current payment to calculate Effective Income.
5 6 7 8 9	If the alimony, child support or other maintenance payments have not been consistently received for the most recent six months, the Lender must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support or Maintenance Income has been received for less than two years, the Lender must use the average over the time of receipt.
11	(3) Military Income
12	(a) Definition
13 14 15 16 17 18 19 20	Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including: • base pay • Basic Allowance for Housing • clothing allowances • flight or hazard pay • Basic Allowance for Subsistence • proficiency pay
21	The Lender may not use education benefits as Effective Income.
22	(b) Required Documentation
23 24 25 26 27	The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Loan, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.
28	(c) Calculation of Effective Income
29 30	The Lender must use the current amount of Military Income received to calculate Effective Income.
31	(4) Mortgage Credit Certificates
32	(a) Definition
33 34	Mortgage Credit Certificates refer to government loan payment subsidies other than Section 8 Homeownership Vouchers.

E. Title I Insured Programs

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1	(b) Required Documentation
2 3 4	The Lender must verify and document that the Governmental Entity subsidizes the Borrower's Loan Payments either through direct payments or tax rebates.
5	(c) Calculating Effective Income
6 7 8 9	Mortgage credit certificate income that is not used to directly offset the Loan Payment before calculating the qualifying ratios may be included as Effective Income. The Lender must use the current subsidy rate to calculate the Effective Income.
10 11	The mortgage credit certificate must not be used to offset the Title I Property Improvement Loan Payment.
12	(5) Section 8 Homeownership Vouchers
13	(a) Definition
14 15 16	Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).
17	(b) Required Documentation
18 19 20	The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.
21	(c) Calculation of Effective Income
22 23 24 25	The Lender may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Loan Payment. The Lender must use the current subsidy rate to calculate the Effective Income.
26 27	The Section 8 Homeownership Voucher must not be used to offset the Title I Property Improvement Loan Payment.
28	(6) Other Public Assistance
29	(a) Definition
30 31	Public Assistance refers to income received from government assistance programs.

E. Title I Insured Programs

2.	Property	Improvement	Loan	Program
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1	(b) Required Documentation
2 3	Lenders must verify and document the income received from the government agency.
4 5 6 7	If any Public Assistance income is due to expire within three years from the date of loan application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue.
8	(c) Calculation of Effective Income
9 10	The Lender must use the current rate of Public Assistance received to calculate Effective Income.
11	(7) Automobile Allowance
12	(a) Definition
13 14	Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.
15	(b) Required Documentation
16 17	The Lender must verify and document the Automobile Allowance received from the employer for the previous two years.
18 19	The Lender must also obtain <u>IRS Form 2106</u> , <i>Employee Business Expenses</i> , for the previous two years.
20	(c) Calculation of Effective Income
21 22	The Lender must determine the portion of the allowance that can be considered Effective Income.
23 24 25	The Lender must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.
26 27 28 29	If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:
30 31 32	 the Borrower's monthly car payment; and any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Ε.	Title	I	Insured	P	Program	5
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1	(8) Retirement Income
2 3	Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.
4	(a) Social Security Income
5	(i) Definition
6 7	Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.
8	(ii) Required Documentation
9 10 11	The Lender must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of form HUD-56001.
12 13 14 15 16	 For SSI, the Lender must obtain any one of the following documents: federal tax returns (minimum one year); the most recent bank statement evidencing receipt of income from the SSA; a Proof of Income Letter, also known as a "Budget Letter" or
17 18 19	 "Benefits Letter" that evidences income from the SSA; or a copy of the Borrower's form <u>SSA-1099/1042S</u>, <i>Social Security Benefit Statement</i>.
20 21 22 23 24 25 26	In addition to verification of income, the Lender must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of form HUD-56001 that income may not be used for qualifying.
27 28 29 30 31	If the Notice of Award or equivalent document does not have a defined expiration date, the Lender must consider the income effective and reasonably likely to continue. The Lender should not request additional documentation from the Borrower to demonstrate continuance of SSA income.
32 33 34	If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

1	(iii)Calculation of Effective Income
2 3	The Lender must use the current amount of Social Security Income received to calculate Effective Income.
4	(b) Pension
5	(i) Definition
6 7	Pension refers to income received from the Borrower's former employer(s).
8	(ii) Required Documentation
9 10 11	The Lender must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.
12 13 14 15 16 17	 The Lender must obtain any one of the following documents: federal tax returns; the most recent bank statement evidencing receipt of income from the former employer; or a copy of the Borrower's pension/retirement letter from the former employer.
18	(iii)Calculation of Effective Income
19 20	The Lender must use the current amount of Pension income received to calculate Effective Income.
21	(c) Individual Retirement Account and 401(k)
22	(i) Definition
23 24	Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.
25	(ii) Required Documentation
26 27 28	The Lender must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.
29 30 31 32	The Lender must obtain the most recent IRA/401(k) statement and any one of the following documents: • federal tax returns; or • the most recent bank statement evidencing receipt of income.

1	(iii)Calculation of Effective Income
2 3 4 5 6 7 8	For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.
9	(9) Rental Income
10	(a) Definition
11 12	Rental Income refers to income received or to be received from the subject Property or other real estate holdings.
13	(b) Rental Income Received from the Subject Property
14	(i) Standard
15 16	The Lender may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.
17 18 19	Net Rental Income may be included in the calculation of the Borrower's DTI ratios if it is stable, properly documented, and expected to continue for at least two years.
20 21	Rental Income may be considered if it is shown on the Borrower's tax return.
22	(ii) Required Documentation
23 24	Lenders must obtain federal tax returns and all schedules including Schedule E to IRS Form 1040.
25 26 27	The Lender must also obtain a current lease or other documentation to verify with reasonable assurance that the Rental Income shown on the tax return is still being received and can be expected to continue.
28	(iii)Calculation of Effective Income
29 30 31	The Lender must add the net Rental Income to the Borrower's gross income. The Lender must calculate the Rental Income by averaging the net amount shown on the Schedule E of federal tax returns.
32 33	Depreciation shown on Schedule E may be added back to the net income or loss.

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Positive net Rental Income must be added to the Borrower's Effective 1 2 Income. Negative net Rental Income must be included as a debt/liability. 3 The Lender may not reduce the Borrower's total Title I Loan Payment by the net subject property Rental Income. 4 5 (c) Rental Income from Owner-Occupied Properties 6 If a Borrower resides in one unit of a multi-unit Property, Rental Income from 7 the additional units may be added to the gross income. The Rental Income must not be used to offset the Loan, taxes, insurance, or other shared expense 8 9 for the Property; these items must be considered in the DTI ratio. 10 The net Rental Income from Schedule E may be increased by the amount of the loan interest, taxes, insurance, and depreciation for the rental unit(s) used 11 in the Schedule E calculation. 12 13 (d) Boarders of the Subject Property 14 (i) Definition 15 Boarder refers to an individual renting space inside the Borrower's Dwelling Unit. 16 (ii) Standard 17 18 Rental Income from Boarders is only acceptable if the Borrower has a 19 two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving boarder income. 20 21 (iii) Required Documentation The Lender must obtain two years of the Borrower's tax returns 22 evidencing income from Boarders and the current lease. 23 24 (iv) Calculation of Effective Income 25 The Lender must calculate the Effective Income by using the lesser of the two-year average or the current lease. 26 27 (10) Investment Income 28 (a) Definition 29 Investment Income refers to interest and dividend income received from assets 30 such as certificates of deposits, mutual funds, stocks, bonds, money markets, 31 and savings and checking accounts.

Ε.	Title	I	Insured	Pro	grams
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1	(b) Required Documentation
2 3 4	The Lender must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.
5	(c) Calculation of Effective Income
6 7 8	 The Lender must calculate Investment Income by using the lesser of: the average Investment Income earned over the previous two years; or the average Investment Income earned over the previous one year.
9 10	The Lender must subtract any of the assets needed to fund the property improvement project prior to calculating any interest or dividend income.
11	(11) Capital Gains and Losses
12	(a) Definitions
13 14 15	Capital Gains refer to a profit that results from a disposition of a capital asset such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.
16 17 18	Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.
19	(b) Standard
20 21 22	Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.
23	(c) Required Documentation
24 25 26 27	Three years' tax returns are required to evaluate an earnings trend. If the trend: • results in a gain, it may be added as Effective Income; or • consistently shows a loss, it must be deducted from the total income.
28	(12) Expected Income
29	(a) Definition
30 31 32	Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of loan closing.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(b) Standard
2 3	The Lender may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.
4	(c) Required Documentation
5	The Lender must verify and document the existence and amount of Expected
6	Income with the employer in writing and that it is guaranteed to begin within
7	60 Days of loan closing. For expected Retirement Income, the Lender must
8 9	verify the amount and that it is guaranteed to begin within 60 Days of the loan closing.
10	(d) Calculation of Effective Income
11	Income is calculated in accordance with the standards for the type of income
12	being received. The Lender must also verify that the Borrower will have
13	sufficient income or Cash Reserves to support the Loan Payment and any
14	other obligations between loan closing and the beginning of the receipt of the
15	income.
16	(13) Trust Accounts
17	(a) Definition
18	Trust Income refers to income that is regularly distributed to a Borrower from
19	a trust.
20	(b) Required Documentation
21	The Lender must verify and document the existence of the Trust Agreement or
22	other trustee statement. The Lender must also verify and document the
23	frequency, duration, and amount of the distribution by obtaining a bank
24	statement or transaction history from the bank.
25	The Lender must verify that regular payments will continue for at least the
26	first three years of the loan term.
27	(c) Calculation of Effective Income
28	The Lender must use the income based on the terms and conditions in the
29	Trust Agreement or other trustee statement to calculate Effective Income.

E.	Title	T	Insured	Programs
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2.	Property	Improvement	Loan	Program
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1	(14) Annuities or Similar
2	(a) Definition
3 4	Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.
5	(b) Required Documentation
6 7 8 9	The Lender must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Loan. The Lender must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.
10	(c) Calculation of Effective Income
11 12	The Lender must use the current rate of the annuity to calculate Effective Income.
13 14 15	The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.
16	(15) Notes Receivable Income
17	(a) Definition
18 19 20	Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or other similar credit instrument.
21	(b) Required Documentation
22 23 24 25 26	The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Loan.
27	(c) Calculation of Effective Income
28 29 30 31 32	For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

Ε.	Title	I	Insured	Pro	grams
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2. Property Improvement Loan Program

1	(16) Non-Taxable Income (Grossing Up)
2	(a) Definition
3	Non-Taxable Income refers to types of income not subject to federal taxes,
4	which includes, but is not limited to:
5	 some portion of Social Security Income;
6	 some federal government employee Retirement Income;
7	 Railroad Retirement benefits;
8	• some state government Retirement Income;
9	 certain types of disability and public assistance payments;
10	• Child Support;
11	• military allowances; and
12 13	 other income that is documented as being exempt from federal income taxes.
14	(b) Required Documentation
15	The Lender must document and support the amount of income to be Grossed
16	U p for any non-taxable income source and the current tax rate applicable to
17	the Borrower's income that is being Grossed Up.
18	(c) Calculation of Effective Income
19	The amount of continuing tax savings attributed to Non-Taxable Income may
20	be added to the Borrower's gross income.
21	The percentage of Non-Taxable Income that may be added cannot exceed the
22	greater of 15 percent or the appropriate tax rate for the income amount, based
23	on the Borrower's tax rate for the previous year. If the Borrower was not
24	required to file a federal tax return for the previous tax reporting period, the
25	Lender may Gross Up the Non-Taxable Income by 15 percent.
26	The Lender may not make any additional adjustments or allowances based on
27	the number of the Borrower's dependents.
28	iii. Asset Requirements
29	(A) General Asset Requirements
30	If a contract or work estimate exceeds the amount of the Title I Loan, the Lender
31	must verify the source of the additional funds needed to complete the work and for
32	fees and charges that may not be financed in the Title I Loan.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(1) No Minimum Downpayment Required
2 3	A Title I Property Improvement Loan does not require a minimum borrower payment toward eligible improvements and/or loan fees.
4	(2) Cash to Close and Reserves
5 6 7	The Lender must document all funds that are used for the purpose of qualifying for or closing the Loan, including those to satisfy debt or pay costs outside of closing.
8	(a) Determining the Amount Needed for Closing (Initial Payment)
9 10 11 12	For a Title I Property Improvement Loan, the amount of cash needed by the Borrower to close is the difference between the total cost of the property improvements plus non-financed fees and charges, and the Total Loan Amount.
13 14 15 16	For a refinance transaction, the amount of cash needed by the Borrower to close a Property Improvement Loan is the difference between the total Payoff plus non-financed fees and charges associated with the new Loan, and the total new Title I loan amount.
17	(b) Initial Payment
18	(i) Definition
19 20 21	Initial Payment refers to the amount of money that a Borrower must pay for non-financeable fees and charges and to fund any portion of the improvement work not covered by the loan amount.
22	(ii) Standard
23 24 25 26	The Lender must verify and document the source of the Initial Payment if it exceeds 5 percent of the loan amount. This requirement applies to money from all sources including funds from a Borrower's savings, a Gift or a secured loan.
27 28 29	However, if the case binder includes asset verification that reveals large deposits, the Lender must obtain a credible explanation and document that the funds came from an acceptable source.
30 31 32	In addition to the Initial Payment, additional Borrower expenses not financed into the Loan must be included in the total amount of cash that the Borrower must provide at loan settlement.

I	(c) Fees and Charges
2	The Lender or sponsored TPO may charge and collect from Borrowers those
3	customary and reasonable closing costs necessary to close the Loan, in
4	compliance with permissible fees and charges described in this section. Fees
5	and charges must not exceed the actual costs.
6	(3) Financeable Fees and Charges
7	The following fees and charges incurred in connection with a Property
8	Improvement Loan may be included in the loan amount provided their inclusion
9	does not increase the total principal balance beyond the maximum loan amount
10	permitted:
11	• the origination fee, not to exceed 5 percent of the net proceeds. The
12	origination fee includes Lender-related costs of doing business.
13	Origination expenses for document preparation, copying, processing,
14	underwriting and courier fees and similar origination expenses are part the
15	origination fee and must not be charged separately;
16	 fees for architectural and engineering services;
17	 building permits;
18	• the credit report;
19	• title examination;
20	 fees for determining whether the Property is in an SFHA;
21	• such other items as may be specified by HUD;
22	• recording fees, recording taxes, filing fees, and documentary stamp taxes;
23	and
24	• a fee for inspection of the Property by a Lender or its agent, not to exceed
25	\$125.
26	(4) Non-Financeable Fees and Charges
27	The following are fees and charges in connection with the Title I Loan that must
28	not be financed into the Title I Loan or advanced by the Dealer, contractor or any
29	party to the loan transaction.
30	These costs must be included in the total amount of cash that the Borrower must
31	provide at loan settlement:
32	 Discount Points to be paid by a Borrower to a Lender. Discount Points
33	must be limited to a corresponding decrease in the interest rate;
34	• a fee for the services of a qualified Closing Agent to act on behalf of a
35	Lender in closing a Direct Loan transaction;
36	 Title I Loan annual insurance premiums;
37	 premiums for flood insurance, if flood insurance is required;
38	 optional insurance premiums including for credit life and disability;
39	• title insurance;

E. Title I Insured Programs	Ε.	Title I	Insured	Programs
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2.	Property	Improvement	Loan 1	Program
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1 2 3	 monthly escrow payment amounts for property tax and hazard insurance, and flood insurance; other fees necessary to establish the validity of a lien;
4	• survey costs;
5	 a handling charge to refinance an existing Title I Loan, not to exceed 1
6	percent of the new loan amount;
7 8	 an assumption fee not to exceed 1 percent of the unpaid principal balance on the Loan; and
9	 a fee for recording a release of the Lender's security in the Property, if
10	permitted under state law.
11	(5) Fees and Charges that May Not be Paid
12	(a) Referral Fees
13 14	A Referral Fee is a payment for recommending the services of a Lender or contractor/Dealer.
15	Neither the Lender nor the Borrower may pay a referral fee to any Dealer,
16	home manufacturer, contractor, supplier, real estate broker, loan broker, or
17	any other party in connection with the origination of a Loan insured under
18	Title I.
19	(b) Third Party Origination Fees
20 21 22	Lenders may negotiate payment with sponsored Third-Party Originators (TPO) for their origination of Title I Loans, but the fee must not be charged to the Borrower.
22	Title II and an analysis of the standards
23 24	Title I Lenders engaged with sponsored TPOs must comply with the standards for Sponsor/Sponsored Third-Party Originator for Title I.
25	(6) Premium Pricing on FHA-Insured Loans
26	Premium Pricing refers to a credit from a Lender for the interest rate chosen.
27	Premium Pricing may be used to pay a Borrower's actual closing costs and/or
28	prepaid items. Closing costs paid in this manner do not need to be included as part
29	of the Interested Party limitation.
30	The funds derived from a premium priced Loan:
31	• must be disclosed in accordance with RESPA;
32	 must be used to reduce the principal balance if the credit amount exceeds
32 33	the actual dollar amount for closing costs and prepaid expenses; and
34	 may not be used for payment of debts, collection accounts, escrow
35	shortages or missed Loan Payments, or Judgments.

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

1	(7) Interested Party Contributions on the Settlement Statement
2 3	The Lender may apply Interested Party credits to the closing costs and prepaid items, including any items Paid Outside Closing (POC).
4 5 6	The Lender must identify the total Interested Party credits on the Settlement Statement or other similar legal document. The Lender must identify each item paid by Interested Party Contributions.
7	(8) Minimum Verified and Documented Cash Reserves
8	(a) Definition
9 10	Cash Reserves include all non-retirement liquid assets available for withdrawal or liquidation from all financial institutions.
11	(b) Standard
12 13	A minimum amount of Cash Reserves is not required for the Title I Property Improvement Loan program.
14 15	Lenders must document Cash Reserves as required for a <u>Compensating Factor</u> .
16	(B) Sources of Funds
17	(1) Checking and Savings Accounts
18	(a) Definition
19 20	Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allow for withdrawals and deposits.
21	(b) Standard
22 23	The Lender must verify and document the existence of and amounts in the Borrower's checking and savings accounts.
24 25 26	For recently opened accounts and recent individual deposits of more than 1 percent of the loan amount, the Lender must obtain documentation of the deposits.
27	(c) Required Documentation
28 29 30	If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

1	(i) Traditional Documentation
2 3	The Lender must obtain a written Verification of Deposit (VOD) and the Borrower's most recent statement for each account.
4	(ii) Alternative Documentation
5 6 7 8	If a VOD is not obtained, a statement provided by the financial institution showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Lender must obtain statement(s) for the most recent two months.
9	(iii)Source of Large Deposit
10 11 12 13	If the Lender finds a large, unexplained increase in a Borrower's account balance, the Lender must request an explanation from the Borrower and verify the source of the funds. The Lender must evaluate the Borrower's explanation as part of the underwriting process.
14	(2) Cash on Hand
15	(a) Definition
16 17	Cash on Hand refers to cash held by the Borrower outside of a financial institution.
18	(b) Standard
19 20	The Lender must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the Lender or retailer.
21	(c) Required Documentation
22 23 24	The Lender must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.
25 26 27 28 29 30	The Lender must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's: • income stream; • spending habits; • documented expenses; and • history of using financial institutions.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(3) Retirement Accounts
2	(a) Definition
3 4	Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.
5	(b) Standard
6 7 8 9 10	The Lender may include up to 60 percent of the value of assets, less any existing Loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plans, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
11 12	The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.
13	(c) Required Documentation
14 15 16 17	The Lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.
18 19	If any portion of the asset is required for funds to close, evidence of liquidation is required.
20	(4) Stocks and Bonds
21	(a) Definition
22	Stocks and Bonds are investment assets accumulated by the Borrower.
23	(b) Standard
24 25	The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.
26 27 28 29 30	If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third-party verification. Government-issued savings bonds are valued at the original purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1	(c) Required Documentation
2 3 4	The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.
5 6	For stocks and bonds not held in a brokerage account, the Lender must obtain a copy of each stock or bond certificate.
7	(5) Private Savings Clubs
8	(a) Definition
9 10	Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.
11	(b) Standard
12 13	The Lender may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.
14 15 16 17	The Lender must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Lender must also determine that the received funds were reasonably accumulated, and not borrowed.
18	(c) Required Documentation
19 20	The Lender must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.
21	(6) Gifts (Personal and Equity)
22	(a) Definition
23	Gifts refer to contributions of cash with no expectation of repayment.
24	(b) Standard for Gifts
25	(i) Acceptable Sources of Gifts Funds
26 27 28 29 30 31	 Gifts may be provided by: the Borrower's Family Member; the Borrower's employer or labor union; a close friend with a clearly defined and documented interest in the Borrower; a charitable organization; or

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

1 2 3 4	 a governmental agency or public Entity that has a program providing homeownership assistance to: Low- to Moderate-Income families; or first-time homebuyers.
5 6 7 8	The gift donor may not be a person or Entity with an interest in the transaction, such as the contractor, Dealer, or any person or any other affiliated Entity. Gifts from these sources are not permitted on Title I Property Improvement Loans.
9	(ii) Reserves
10 11	Gift funds in excess of funds needed for Initial Payment must not be considered as Reserves.
12	(iii)Donor's Source of Funds
13	Cash on Hand is not an acceptable source of donor gift funds.
14	(c) Required Documentation
15 16 17 18 19 20	The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following: • the donor's name, address, and telephone number; • the donor's relationship to the Borrower; • the dollar amount of the Gift; and • a statement that no repayment is required.
21	Documenting the Transfer of Gifts
22 23	The Lender must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.
24 25 26	a. If the gift funds have been verified in the Borrower's account, the Lender must obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.
27 28 29 30	b. If the gift funds are not verified in the Borrower's account, the Lender must obtain the certified check, money order, cashier's check, wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.
31 32 33 34	c. If the gift funds are paid directly to the settlement agent, the Lender must verify that the settlement agent received the funds from the donor for the amount of the Gift, and that the funds were from an acceptable source.

- **E.** Title I Insured Programs
- 2. Property Improvement Loan Program

1 2 3 4 5	d. If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Lender must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Lender.
6 7 8 9	e. Regardless of when gift funds are made available to a Borrower, the Lender must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source, and were the donor's own funds.
10	(7) Interested Party Contributions
11	(a) Definitions
12 13	Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.
14 15 16	Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs, and Discount Points.
17 18 19 20 21 22	Discount Points refers to a fee charged by the Lender, separate from interest but part of the total finance charges on the Loan, that is part of the Lender's total yield on the Loan needed to maintain a competitive position with other types of investments. One Discount Point equals 1 percent of the principal amount of the Loan. As Discount Points on the Loan increase, the interest rate can be expected to decrease in a fairly consistent relationship.
23	(b) Standard
24 25	Interested Party Contributions must not exceed actual loan costs or result in cash to the Borrower.
26 27 28 29 30	Interested Parties may contribute up to 6 percent of the loan amount toward the Borrower's loan fees, including: • the origination fee; • Discount Points or permanent interest rate buydown; and • fees and charges.
31	(c) Required Documentation
32 33 34	The Lender must identify the total Interested Party credits on the Settlement Statement or similar legal document, and the sales contract. The Lender must identify each item paid by Interested Party Contributions.

Ε.	Title	I	Insured	F	Programs
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2.	Property	Improvement	Loan 1	Program
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1	(8) Split Financing
2	(a) Definition
3 4	Split Financing refers to a loan used in conjunction with the Title I Property Improvement Loan to finance the improvement project.
5	(b) Standard
6 7 8	If a contract or work estimate exceeds the amount of the Title I Loan, the Lender must verify the source of the additional funds needed to complete the work.
9 10	If the additional funds are borrowed or will be borrowed, the monthly repayment amount must be included in the Borrower's qualifying ratios.
11 12	When the proceeds of other financing secure the subject Property, Lenders must ensure that Title I <u>Lien Priority</u> requirements are met.
13	(c) Required Documentation
14 15 16 17 18	 The Lender must obtain from the provider of any other financing: documentation showing the amount of funds provided to the Borrower for each transaction, and copies of the loan instruments evidencing the monthly payment and loan term.
20	monthly payment in the qualifying ratio.
21	iv. Final Underwriting Decision
22 23	The underwriter is ultimately responsible for making an underwriting decision on behalf of their Lender in compliance with HUD requirements.
24 25 26 27	Before making a final determination on the creditworthiness of the Borrower, the Lender must conduct a face-to-face or telephone interview with the Borrower and any co-maker or Cosigner to resolve any discrepancies in the information on the credit application and to ensure that the information is accurate and complete.
28	(A) Specific Underwriter Responsibilities
29 30 31 32	The underwriter must review each Loan as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Loan Payments in order to make an underwriting decision. The underwriter must evaluate the totality of the Borrower's circumstances

- E. Title I Insured Programs
- 2. Property Improvement Loan Program

2	repay the loan obligation according to the terms of the Loan.
3 4 5 6 7 8 9 10 11 12 13 14 15 16	 As the responsible party, the underwriter must: perform credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation; determine the acceptability of the property improvements, the Borrower's capacity to repay the Loan, and the overall acceptability of the Loan for FHA insurance; identify any inconsistencies in information obtained by the Lender in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Loan; resolve all inconsistencies identified before approving the Borrower's application; and document the inconsistencies and the resolutions of the inconsistencies in the file.
17 18	The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.
19	(B) Underwriting of Credit and Debt
20 21	The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's <u>overall pattern of credit behavior</u> .
22 23	A lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for rejecting the loan application.
24	(C) Underwriting of Income
25 26	The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see <u>Income Requirements</u>).
27	(D) Underwriting of Assets
28 29 30	The underwriter must review the assets of a Borrower required to close the Loan and verify that they have been supported with the proper documentation (see <u>Asset Requirements</u>).
31	(E) Verifying Loan Amount and Annual Insurance Premium
32 33 34 35	The underwriter must review the loan amount and annual insurance premium. The underwriter must ensure that the loan amount does not exceed Nationwide Loan Limits , or the total improvement cost, as reflected in the work contract and supporting documentation (see Improvement Contract and Required Supporting Documentation).

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2. Property Improvement Loan Program

1	(F) Calculating Qualifying Ratio
2 3	For all transactions, except Streamline Refinances, the underwriter must calculate the Borrower's DTI, and verify compliance with the maximum ratio requirements.
4	(1) Calculating the Total Debt
5 6 7 8 9 10 11 12 13 14 15	The Borrower's total property payment expense includes: • the monthly payment on the Property Improvement Loan; • all other Mortgage Payments on the Property, including: o real estate taxes; o hazard insurance; o flood insurance, as applicable; o annual insurance premium; o Homeowners' Association (HOA) or manufactured home community or park association fees or expenses; o lot rent; and o special assessments.
16	(2) Calculating Total Debt Payment
17 18 19	 The total fixed payment includes: the total monthly property payment; and monthly obligations on all other debts and liabilities.
20	(3) Approvable Qualifying Ratio
21 22	The maximum Total Debt Payment to Effective Income Ratio, or DTI, for a Title I Property Improvement Loan is 45 percent.
23	(4) Acceptable Compensating Factors
24 25	If a DTI ratio exceeds HUD's maximum allowable amount by 2 percent or less, a compensating factor may be considered when determining eligibility.
26 27 28	The following describes the compensating factors and required documentation that may be used to justify approval of Loans with the credit sufficiency and qualifying ratios described above.
29	(a) Verified and Documented Cash Reserves
30 31 32	Verified and documented Cash Reserves may be cited as a compensating factor when the Cash Reserves are equal to or exceed three total monthly Loan Payments.
33 34	Cash Reserves are calculated as the Borrower's total <u>assets</u> less: • the <u>Initial Payment</u> ;

Ε.	Title	I	Insured	I	Prog	grams
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2. Pr	operty	Improv	ement	Loan	Program	n
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1 2	Gifts; andborrowed funds.
3	(b) Significant Additional Income Not Reflected in Effective Income
4	Additional income or benefits not included in effective gross income that
5	directly impacts the applicant's ability to meet financial obligations include:
6	 bonuses, part-time or Seasonal Employment that is not reflected in
7	Effective Income;
8	 employee benefits (company car, clothing allowance); and
9	 public benefits (nutritional assistance/food stamps/seasonal
10	unemployment).
11	Significant additional income can be cited as a compensating factor subject to
12	the following requirements:
13	• the Lender must verify and document that the Borrower has received
14	this income, and it will likely continue; and
15	• the income, if it were included in gross Effective Income, is sufficient
16	to reduce the qualifying ratios to not more than 47.
17	Income from Non-Borrowing Spouses or other parties not obligated for the
18	Loan may not be counted under this criterion.
19	(c) Potential for Increased Future Earnings
20	A Borrower that has potential for increased future earnings may be cited as a
21	compensating factor with documented justification, such as job training or
22	education in the applicant's profession.
23	(d) Secondary Wage Earner Potential (Employment Relocation)
24	Potential income for a secondary wage earner may be cited as a compensating
25	factor under the following condition: the secondary wage earner has
26	accompanied a primary wage earner, who is purchasing a property as a result
27	of a recent employment relocation.
28	The case binder must document all of the following:
29	 evidence that the primary wage earner relocated for a new job;
30	• at least a 12 month work history for the secondary wage earner, prior
31	to relocation; and
32	• the prospects of available employment.
33	(e) Residual Income
34	Residual income may be cited as a compensating factor for owner-occupied
35	Properties, provided it can be documented and it is at least equal to the

Ε.	Title	I	Insured	Pro	grams
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2. Property Improvement Loan Program

applicable amounts for household size and geographic region found in the 1 Table of Residual Incomes By Region in the Department of Veterans Affairs 2 (VA) Lenders Handbook - VA Pamphlet 26-7, Chapter 4.9 b and e. 3 4 (i) Calculating Residual Income 5 Residual income is calculated as total Effective Income of all occupying 6 Borrowers less: 7 state income taxes; 8 federal income taxes; 9 municipal or other income taxes; 10 retirement or Social Security; proposed total Loan Payment; 11 estimated maintenance and utilities: 12 13 job related expenses (e.g., child care); and the amount of the Gross Up of any Non-Taxable Income. 14 15 If available, Lenders must use federal and state tax returns from the most 16 recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Lenders may rely 17 18 upon current pay stubs. 19 For estimated maintenance and utilities, Lenders must multiply the Gross Living Area (GLA) of the Property by the maintenance and utility factor 20 found in the Lenders Handbook - VA Pamphlet 26-7. 21 (ii) Using Residual Income as a Compensating Factor 22 23 To use residual income as a compensating factor, the Lender must count all members of the household of the occupying Borrower without regard 24 25 to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size." 26 27 **Exception** 28 The Lender may omit any individuals from "family size" who are fully 29 supported by a source of verified income that is not included in the 30 Effective Income in the loan analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this 31 32 exception. 33 From the table provided in <u>Lenders Handbook</u> - VA Pamphlet 26-7, select 34 the applicable loan amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited 35 as a compensating factor. 36

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1	(G)Borrower Approval or Denial
2	(1) Re-Underwriting
3 4	The Lender must re-underwrite a Loan when any data element of the Loan changes and/or new Borrower information becomes available.
5	(2) Required Documentation of Final Underwriting Review Decision
6 7 8	The underwriter must complete the underwriter report or worksheet to evidence their final underwriting decision. For cases involving Loans to HUD employees, the Lender submits the complete underwriting package to FHA prior to closing.
9	(3) HUD Employee Loans
10 11 12	If the Loan involves a HUD employee, the Lender must condition the Loan on the approval of the Loan by HUD. The Lender must submit the underwritten loan application package to the Director of the <u>FOC</u> for final underwriting approval.
13	(4) Responsibilities upon Denial
14 15	When a Loan is denied, the Lender must comply with all requirements of the FCRA, and the ECOA, as implemented by Regulation B (12 CFR Part 1002).
16	e. Closing and Disbursement
17	i. Lender Closing Requirements
18 19 20 21 22 23 24 25 26	 Before disbursing the proceeds of a Title I Property Improvement Loan, the Lender must ensure, at a minimum, that the following conditions have been met: the Borrower is eligible for a Title I Property Improvement Loan; the interest of the Borrower in the Property is valid, through such title or other evidence as are generally acceptable to prudent lending institutions and leading attorneys in the community where the Property is located; the proposed use of the loan proceeds is eligible and adequately documented; the case binder contains a valid Note and Security Instrument (if required); and all other required documents relating to the loan transaction.
27	(A) Required Documents for Case Binder
28 29 30 31 32	The Lender must confirm that the case binder is complete and that the following documents, if applicable to the Loan, have been obtained for retention in the case binder. The required documents are: • form

- E. Title I Insured Programs
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1	• evidence of the Borrower's interest in the Property;
2	• Settlement Statement, or similar legal document, reflecting Disbursement(s),
3	itemized loan fees and charges;
4	 Title I Loan summary/underwriter's worksheet detailing the amount financed,
5	calculation of qualifying ratio, and any compensating factors used;
6	 Note or assigned retail installment contract;
7	 Security Instrument (if applicable);
8	 Truth-in-Lending Disclosure (if applicable);
9	 Tri-Merged Credit Report(s) (TRMCR);
10	 loan verification if not reflected on credit report;
11	 non-traditional references, if applicable;
12	• explanation for any adverse credit information and inquiries within recent 90
13	Days;
14	 asset verification including a worksheet or other document with Initial
15	Payment itemization;
16	• gift letter (if applicable);
17	 verification of employment;
18	• income verification;
19	 clearance in HUD's LDP List, and HUD's CAIVRS;
20	• form <u>HUD-56002</u> , Completion Certificate for Property Improvements: Direct
21	or Dealer Loans;
22	 inspection report for improvements (required for loan amounts greater than
23	\$7500);
24	• IRS Form 4506 or 4506-T executed by the Borrower;
25	 Life of Loan Flood Certification;
26	 payment history on subject Loan if Loan Payments have begun; and
27	 Lender processing and servicing notes.
28	(B) Title Insurance
20	(b) The insurance
29	At its option, the Lender may obtain title insurance for Property treated as real estate.
30	(C) Disbursement Date
31 32	Disbursement Date refers to the date proceeds of the Loan are made available to the Borrower.
33	(D) Signatures
34 35	The Lender must ensure that the loan Note, and all closing documents are signed by all required parties in accordance with the <u>Borrower Eligibility</u> .

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1	(E) Use of Power of Attorney at Closing
2 3	A Borrower may designate an attorney-in-fact to use a POA to sign documents on their behalf at closing, including the Disclosure Notice to Borrower.
4 5 6 7 8 9 10 11	 Unless required by applicable state law, as stated below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the Security Instrument or Note as the attorney-in-fact under a POA: the Lender, or any employee or Affiliate; the loan originator, or employer or employee; the title insurance company providing the title insurance policy, the title agent closing the Loan, or any of their Affiliates; or any real estate agent or any person affiliated with such real estate agent.
12	Exception
13 14 15 16	Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the Internet,
17 18 19 20 21 22	 has: confirmed their identity; and reaffirmed, after an opportunity to review the required loan documents, their agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required Loan by such attorney-in-fact.
23 24 25	The Lender must obtain a copy of form HUD-56001, <i>Credit Application for Property Improvement Loan</i> , signed by the Borrower or POA in accordance with <u>Signature Requirements for all Application Forms</u> .
26	(F) Electronic Signatures
27	See Policy on Use of Electronic Signatures.
28	(G)Disbursement of Loan Proceeds
29	(1) Standard
30 31 32 33	 The Lender must disburse the loan proceeds: solely to the Borrower; or jointly to the Borrower and the Dealer; or jointly to the Borrower and other parties to the transaction.
34	The Lender must verify that loan proceeds are disbursed in the proper amount.

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1	(2) Required Documentation
2 3 4	The Lender must obtain and include in the case binder the final disbursement document or other legal documentation detailing fees, charges, and Disbursement and to whom funds were disbursed.
5	ii. Closing Documents
6	(A) Note
7	(1) Definition
8 9	Note refers to any form of credit instrument commonly used in a jurisdiction to evidence the secured Loan.
10	(2) Standard
11	(a) Form
12 13 14 15 16 17 18 19 20 21 22 23	The Lender must ensure that the Note complies with all applicable state and local requirements for creating a recordable and enforceable Loan, and an enforceable Note. HUD does not provide Note forms or prescribe a particular Note format. The Lender must ensure that the Note and all other documents evidencing the loan transaction are in compliance with applicable federal, state and local laws. The Note must: • state the principal amount of the Loan and the annual rate of interest; • bear the signature of each Borrower and of any co-maker or Cosigner; and • be valid and enforceable against the Borrower and any co-maker or Cosigner.
24	(b) Interest Rate
25 26 27 28	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 must accrue from the date of the Loan, and be calculated on a simple interest basis.
29 30	Adjustable Rate Mortgage products are not permitted for FHA Title I Property Improvement Loans.
31	(c) Temporary Interest Rate Buydown Requirements
32	Temporary interest rate buydowns are not permitted.

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1	(d) Signature
2 3 4 5 6	The Borrower and any co-maker or Cosigner must execute the Note for the full amount of the loan obligation. Although the Borrower 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 Loan. Such date must be entered on the Note when Disbursement occurs.
7	(e) Payments on the Loan
8	The Note must provide for equal installment payments due monthly.
9 10 11	Where the Borrower has an irregular flow of income the Note may be payable at quarterly or semi-annual intervals corresponding with the Borrower's flow of income.
12 13	The first scheduled Loan Payment must be due no later than two months from the date of the Loan.
14	(f) Default Provision
15 16	The Note must contain a provision for acceleration of maturity, at the option of the holder, upon a monetary Default by the Borrower.
17	(g) Late Charges
18 19 20 21 22 23	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 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 case binder if an insurance claim is made.
24	(i) Amount of Late Charge
25 26 27	The Late Charge must not exceed the lesser of 5 percent for each installment of P&I, up to a maximum of \$10 per installment, or the maximum amount permitted by applicable state law.
28	(ii) Method of Payment
29 30 31	Payment of any Late Charge cannot be deducted from the monthly payment of P&I. Late payment fees must be calculated and shown as an additional charge to the Borrower.

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1	(iii)Daily Interest in Lieu of Late Charges
2 3 4	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.
5	(h) Prepayment Provision
6 7	Borrowers cannot be charged a prepayment penalty on any FHA Title I Property Improvement Loan.
8 9	Lenders may charge reasonable and customary charges for recording a release of a security interest in the Property if permitted by state law.
10	(B) Security Instrument
11	(1) Definition
12 13 14	Security Instrument refers to any legal instrument that is commonly used in a jurisdiction in connection with a Loan secured by a Title I Property Improvement Loan.
15	(2) Standard
16 17	Title I Property Improvement Loans must be secured against the subject Property if required by <u>Valid Lien Requirements</u> .
18 19 20 21 22	When lien security is required, the Loan must be secured by a recorded lien on the improved subject Property and evidenced by a Mortgage or deed of trust, as governed by state laws. A Chattel Mortgage, financing statement, Uniform Commercial Code (UCC)-1 filing or similar lien against the property improvements only is not acceptable.
23	(3) Required Documentation
24 25	The lien must be evidenced by a Loan or Mortgage, executed by the Borrower and all other Owners in Fee Simple.
26	(4) Executing the Security Instrument
27 28	The individual borrower name(s) must appear on the Security Instrument, property deed, and title.
29 30 31 32	While an eligible Borrower need only have a "one-half" interest in the Property the Borrower plus all other Owners or parties who have a legal Fee Simple interest in the Property must execute (i.e. sign before a notary) the Security Instrument in order to establish a valid and enforceable lien.

E. Title I Insured Programs

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If a Borrower is a lessee, the Borrower and all deeded Owners of the Property 1 2 must execute the Loan. 3 If a Borrower is a land installment contract purchaser, the Borrower, all deeded Owners, and all intervening contract sellers must execute the Security Instrument. 4 5 (5) Recording and Perfecting the Security The Lender must ensure that the legal description of the Property as recited in the 6 7 Loan (or deed of trust) is accurate and that the Loan creates a valid and 8 enforceable lien on the Real Property in the jurisdiction in which the Property is 9 located. The Loan must be recorded and perfected in the manner specified by applicable state law in the State where the Property is located. 10 11 f. Post-Closing and Insurance 12 i. Disbursement Requirements (A) Direct Loans 13 For Direct Loans, the Lender disburses the funds before the work is started. 14 15 (B) Dealer Loans For a Dealer Loan, the Lender disburses the loan funds only after the work is 16 completed. 17 18 (1) Standard 19 Before Disbursement, the Lender must obtain form HUD-56002, Completion 20 Certificate, executed by each Borrower, and the Dealer/contractor. 21 The Lender must conduct a telephone interview with the Borrower after the 22 Borrower(s) and the Dealer/contractor sign the *Completion Certificate*. The telephone interview must confirm that: 23 24 the Dealer has completed the work; 25 the work is satisfactory; and the Completion Certificate was signed by the Borrower and the Dealer. 26 27 The Lender must document any disagreements between the Borrower and the Dealer brought to their attention that may assist in proper supervision and 28 29 monitoring of the Dealer. 30 Note: The pre-Disbursement telephone interview with the Borrower(s) is in 31 addition to a Lender's credit underwriting telephone interview.

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1	(2) Required Documentation
2	The Lender must document the pre-Disbursement interview.
3	ii. HUD Pre-Insurance Loan Reviews
4	The Lender is not required to submit the loan case file to HUD prior to insurance.
5 6	For Property Improvement Loans, HUD reviews Loans only as part of a Loan's Post- Endorsement Technical Review (PETR) or a claim process.
7	iii. Lender's Pre-Insurance Loan Review
8 9 10	The Lender must complete a pre-insurance review of the case binder to ensure all required loan documents are retained in the case binder. The Lender must exercise due diligence in performing its pre-insurance responsibilities.
11 12 13 14 15	The Lender must evaluate all 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 its underwriting requirements. Once the Lender determines that the Loan complies with Title I program requirements, it may proceed with the insurance application process.
16	(A) Reporting Loan for Insurance
17 18 19 20 21	 Lenders must apply for Title I loan insurance using FHAC within 31 Days from the later of the following dates: loan Note; Disbursement of proceeds, or final Disbursement for stage Disbursements; or purchase from a Dealer or another Lender.
22 23	To initiate the insurance process, the Lender must complete the Title I Insurance Application function in FHAC.
24 25 26 27 28 29	 FHAC is used for the following steps in the insurance process: case number assignment; completing the insurance application; reporting transfers prior to insuring; reporting case updates; and checking the case status.
30 31	Instructions for specific requirements for data format and delivery to FHAC are found in the <u>FHA Connection Guide</u> .
32 33 34	The Application for Insurance screen requires the Lender to enter additional data about the Lender. The system will either confirm that the data entered was accepted, or will provide information regarding corrections the Lender must make to

- E. Title I Insured Programs
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1 2 3 4 5 6 7	successfully complete this step. Data fields that must be completed are grouped by the following subject areas: • general Lender information • Lender information • credit/underwriting information • Borrower information • address Information
8	(B) Confirmation of Insurance
9 10 11 12	After new loan information is entered into FHAC, users view a message indicating that the Title I Property Improvement Loan was successfully completed. The new FHA case number is displayed, along with a summary of the loan information submitted.
13	(C) Loan Insurance Certificate
14 15	A Loan Insurance Certificate (LIC) is <i>not</i> produced in FHAC for Title I Property Improvement Loans.
16	(D) Late Reporting
17 18	The Lender may report the Loan for insurance after 30 Days provided that the Loan is not in Default.
19 20 21 22	Lenders must certify, via FHAC, that all Loans reported for insurance after 30 Days from the Disbursement are not currently in Default. A certification window automatically appears when a Loan is reported past the deadline and must be checked in order to continue the insurance submission process.
23 24 25 26 27	 At the time of the certification the Lender is confirming that: 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.
28	(E) Upfront Insurance Premium Not Required
29	The Title I Property Improvement Loan program does not require a UFIP.
30	(F) Annual Premium Charges
31 32	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.
33 34	Lenders must follow procedures for <u>Annual Insurance Premium and Billing and</u> Remittance.

1 2	iv. Inspection Requirements for Loans Pending Closing or Insurance in Presidentially-Declared Major Disaster Areas
3 4 5 6	All Properties with pending Loan closing or insurance in Presidentially-Declared Major Disaster Areas (PDMDA) must have a damage inspection report that identifies and quantifies any dwelling damage. The report must be dated after the Incident Period (as defined by <u>FEMA</u>). FHA does not require a specific form for a damage inspection report.
7 8 9 10	Streamline Refinances are allowed to proceed to closing and/or insurance without any additional requirements. Lenders must ensure that any damage identified on the report is repaired and that the Property is restored to pre-disaster condition prior to submitting for insurance endorsement.
11 12	FHA does not require that utilities are on at the time of this inspection if they have not yet been restored for an area.
13	(A) Property Improvement Period
14 15 16	The property improvement period starts after the Loan closes. For Direct Loans the improvement period begins when the loan proceeds are disbursed. For Dealer Loans, the improvement period begins before the loan proceeds are disbursed.
17	Property improvements must be completed within six months of loan closing.
18	(B) Completion Certificate
19 20	A form <u>HUD-56002</u> , <i>Completion Certificate</i> , is required for all Title I Property Improvement Loans, with exceptions as described below.
21	(1) Standard
22 23	The Lender must obtain a form HUD-56002, <i>Completion Certificate</i> , for all Property Improvement Loans.
24 25	The <i>Completion Certificate</i> must be signed only after the improvement work is completed.
26 27	For Direct Loans, only the Borrower is required to sign. The Dealer/contractor may sign the <i>Completion Certificate</i> , but this is not required.
28 29	For Dealer Loans, the Borrower and Dealer must sign prior to Disbursement of loan funds.
30	(2) Lender Responsibility
31 32 33	The Lender must provide the Borrower(s) with a <i>Completion Certificate</i> and instructions regarding when and how it should be returned to the Lender. The Lender must track the status of the <i>Completion Certificates</i> and follow up with the

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E. Title I Insured Programs

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1 2	Borrowers as necessary to ensure that it has a properly completed <i>Completion Certificate</i> .
3 4	The Borrower must submit the <i>Completion Certificate</i> to the Lender promptly upon the completion of the improvements.
5	(a) Extension of Improvement Period
6 7	The Lender may grant an extension of this deadline for up to an additional six months.
8 9 10	The Lender must document any time extensions that it grants in the case binder. If the Borrower does not submit the <i>Completion Certificate</i> within these time limits, the Lender should conduct an on-site <u>inspection</u> .
11 12 13	If the Borrower will not cooperate in permitting an on-site inspection or if the inspection determines that the improvements were not completed, the Lender must send a report of non-compliance to HUD.
14	(b) Exception for Government Agencies and Nonprofits
15 16 17 18 19 20 21 22	 The Borrower is not required to submit a <i>Completion Certificate</i> for a Direct Property Improvement Loan made by or on behalf of a: state or local government agency; or nonprofit organization if the loan proceeds are held in an escrow account pending completion of the improvements, and if the loan proceeds are disbursed from the escrow account in stages, with the written approval of the Borrower and based on the percentage of work completed.
23	(3) Borrower's Certification of Completion of Work
24	The Borrower must sign a Completion Certificate to certify that:
25 26 27	1. The loan proceeds have been spent on property improvements that are eligible under the Title I regulations and in accordance with the contract or cost estimate furnished to the lender with my (our) credit application.
28 29	2. The property improvements have been completed in general accordance with the contract or cost estimate to my (our) satisfaction.
30 31 32 33	3. I/We have not obtained and will not receive any cash payment, rebate, cash bonus, sales commission, or anything of value in excess of \$25 from the dealer or contractor as an inducement to enter into the loan transaction.

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1 2 3 4	4. I/We understand that the selection of the dealer or contractor and the acceptance of the materials used and the work performed is my (our) responsibility; and HUD does not guarantee the quality or workmanship of the property improvements.
5	(4) Dealer's Certification of Completion of Work
6	By signing, the Dealer/contractor certifies that:
7 8 9	1. The property improvements are eligible under the Title I regulations and in accordance with the contract or cost estimate furnished to the borrowers.
10 11	2. The property improvements have been completed in general accordance with the contract or cost estimate and to the satisfaction of the borrowers.
12 13 14 15	3. The borrowers have not been given or promised any cash payment, rebate, cash bonus, sales commission, or anything of value in excess of \$25 as an inducement to enter into this loan transaction (except for any discount points paid by the undersigned to the lender).
16 17 18	4. Any discount points paid by the undersigned dealer are from the dealer's own resources and will not be reimbursed by the borrowers or any other party.
19 20	5. The borrowers signed this certificate after completion of the property improvements, and all signatures on this certificate are genuine.
21	(5) Failure to Sign Completion Certificate or Improvements Not Completed
22 23	The Borrower must submit the signed <i>Completion Certificate</i> to the Lender promptly upon the completion of the improvements.
24 25 26	If the Borrower does not submit the <i>Completion Certificate</i> upon completion of the improvements or within minimum time limits for completing the improvements, the Lender must conduct an on-site property inspection.
27 28 29 30	If the Borrower will not cooperate in permitting an on-site inspection or if the inspection determines that the improvements were not completed, the Lender must report the non-compliance to HUD using either form HUD-56005, <i>Report of Noncompliance</i> , or on the Lender's letterhead.
31 32 33 34 35	The report must detail the problem, 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, loan officer name, dealer name, dealer address, dealer telephone number, and dealer tax identification number.

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The Lender must send the report to the FOC, Attention: Title I Insurance 1 2 Processing Branch. 3 Insurance on the Loan will stay in effect unless the non-compliant activity was caused or sanctioned by an employee of the Lender, and provided that the 4 5 promissory Note or any required lien on the Property was not invalidated or made legally unenforceable by the non-compliance. 6 7 (C) Post-Disbursement On-Site Property Inspection Requirement The purpose of the inspection is to verify the eligibility of the improvements and 8 9 whether the work has been completed. 10 The Lender or its agent must conduct an inspection of improvements for: any Loan where a secured lien is required; and 11 any unsecured Direct Loan if the Borrower fails to submit a Completion 12 13 Certificate. 14 The Lender's fee for inspection of the Property must be an amount that is reasonable 15 and customary for the area, not to exceed the maximum financeable limit for 16 inspections. (1) Inspector Qualifications 17 The inspection may be conducted by an employee of the Lender or by the 18 Lender's agent. The Lender may also accept an inspection conducted by local 19 20 authority. 21 Through education or work experience, the inspector must be qualified to evaluate contracts or work estimates and to perform property inspections. 22 23 There must be an "arm's length" relationship between any inspector and the 24 contractor. 25 (2) Deadline for Property Inspection 26 For a Dealer Loan, the inspection must be completed within 60 Days after the date of Disbursement. 27 For a Direct Loan, the inspection must be completed within 60 Days after the 28 29 Lender receives the Completion Certificate, or as soon as the Lender determines 30 that the Borrower is unwilling to cooperate in submitting a Completion 31 Certificate.

The Lender must document the inspection. This documentation must	
	include the
following information:	
• date of the inspection;	
• name of the inspector;	
• name of the Borrower;	
property address;	
8 • date of the Note;	
• loan amount;	
• name of the Dealer/contractor (if a Dealer Loan);	
• a description of the improvements;	
• photographs of the improvements; and	
• the inspector's opinion as to whether cost of improvements ar	re .
commensurate with improvements inspected.	
The inspection report must either identify improvements that were co	ompleted
16 and/or incomplete.	mpieted
and of montpress.	
17 Incomplete work may be described in terms of specific items in the w	vork plan,
percentage of completion, or an estimate regarding the dollar value of	f the
19 completed improvements.	
The Landar is mean ancible for reviewing the inspection man out and any	annin a that
The Lender is responsible for reviewing the inspection report and ensemble there is no evidence of inconsistency between the photographs and the	_
there is no evidence of inconsistency between the photographs and the	ie narratives.
22 (4) Incomplete Improvements	
22 If the inspection determines that the contracted improvements were	4
23 If the inspection determines that the contracted improvements were n 24 completed, the Lender should seek an explanation from the Borrower	
25 if applicable).	i (and Dealer
in applicable).	
26 If the Lender is able to confirm that the proceeds of the Loan were us	sed
exclusively for eligible improvements and eligible fees or charges, th	
should document in the case binder regarding this determination. Thi	is Lender's
documentation should identify items from the work proposal that were	re not
30 completed.	
31 (D) Reporting Misuse of Proceeds	
(b) Reporting Misuse of Proceeds	
32 If the Lender determines that any portion of the loan proceeds was used f	for ineligible
improvements or for ineligible purposes, they must promptly report those	c r munigs to
improvements or for ineligible purposes, they must promptly report those HUD using form HUD-56005, <i>Report of Noncompliance</i> , or on the Lend	_

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If Findings of non-compliance relate to an approved Dealer used in the Dealer Loan 1 2 process, the Lender must determine whether it should terminate the Dealer from 3 participation in the Title I program. 4 The report must detail the problem, and must contain the following information to 5 assist in any investigation: borrower name, borrower address, borrower telephone number, loan amount, loan date, inspection date, lender loan number, loan officer 6 7 name, dealer name, dealer address, dealer telephone number, and dealer tax 8 identification number. 9 The Lender must send the report to the FOC, Attention: Title I Insurance Processing 10 Branch. 11 Insurance on the Loan will stay in effect unless the non-compliant activity was caused or sanctioned by an employee of the Lender, and provided that the promissory Note 12 13 or any required lien on the Property was not invalidated or made legally unenforceable by the non-compliance. 14 15 g. Programs and Products - Refinance 16 i. Overview (A) Definition 17 18 A Refinance transaction establishes a new Loan to pay off the existing debt for a 19 Borrower with legal title to the subject Property. The existing debt to be paid off must be a Title I Property Improvement Loan. The refinance Loan may also advance funds 20 21 for additional improvements. 22 (B) Types of Refinances 23 (1) Cash-Out or Cash Back (Not Permitted) 24 A Cash-Out Refinance refers to a refinance of any loan that advances additional credit or provides cash back to the Borrower, or for which the loan proceeds are 25 26 used for ineligible purposes. 27 A Cash-Out Refinance transaction is not permitted for the Title I Property Improvement Loan program. 28 29 (2) No Cash-Out Refinance 30 Title I No Cash-Out Refinances are categorized into three possible refinance 31 types.

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1	(a) Simple Title I Property Improvement Refinance
2 3 4 5	A Simple Title I Refinance refers to a no cash-out refinance of an existing Title I insured Property Improvement Loan in which all proceeds are used to pay off the existing Title I Loan on the subject Property, and <u>financeable fees and charges</u> .
6 7	(b) Streamline Title I Property Improvement Refinance (Non-Credit Qualifying)
8 9 10	A Streamline Title I Property Improvement Refinance refers to the refinance of an existing Title I Property Improvement Loan for which the Lender is not required to perform credit or capacity analysis.
11	(c) Title I Property Improvement Refinance With Advance of Funds
12 13 14	A Title I Property Improvement Refinance with Advance of Funds refers to the refinance of an existing Title I Property Improvement Loan, and advances of funds for additional improvements and financeable fees.
15	ii. FHA-Insured to FHA-Insured Refinances
16	FHA-Insured to FHA-Insured refinances may be used with any refinance type.
17	iii. Conditions for Refinance
18 19	An existing Title I insured Property Improvement Loan may be refinanced only under the following conditions.
20	(A) Lender of Record Only
21 22 23	An existing Title I Loan may not be refinanced by a Lender different from the originating Lender of record, unless the Loan has been sold, assigned, or transferred to the new Lender and HUD has transferred insurance coverage for the Loan.
24	(B) Loan in Default
25 26	A Loan that is in Default must not be refinanced for an amount greater than the original principle balance of the Loan.
27	(C) Title I Note and Security
28 29 30 31 32	Refinancing is subject to the Title I <u>Note</u> and <u>Security Instrument</u> requirements. Refinancing requires the Borrower(s) to execute a new Note as well as cancel the old Note. The Lender must obtain and record a new Security Instrument and should release the original lien unless state law permits a renewal and extension of the original lien.

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1	(D) Co-Maker or Cosigner on Loan
2 3 4 5	If there are any co-makers or Cosigners on the original Note, a Lender must require that the same co-makers or Cosigners be obligated on the refinanced Note, unless the Lender obtains HUD's approval to release the co-maker or Cosigner from liability on the Note.
6	(E) Previous Assumption
7 8 9	A Loan that was assumed may be refinanced as long as the original Borrower and any intervening assumptors were <u>released from liability</u> either at the time the Loan was assumed or later through permission from HUD.
10	(F) Additional Improvements
11 12	A Loan may be refinanced with funds for additional improvements if the additional improvements are eligible and the Loan is not in Default.
13	iv. Nationwide Loan Limits
14 15	The total principal obligation for a refinance must not exceed the <u>Nationwide Loan Limits</u> , for the property type/loan purpose.
16	v. Maximum Loan Term
17 18 19 20	The term of a refinance must not exceed the maximum <u>loan term</u> for the type of Loan. In addition, the total time period from the Disbursement Date of the original Loan to the final maturity of the refinance must not exceed the maximum term for the type of Loan plus 9 years and 11 months.
21	vi. Other Documents
22	A new Notice to Borrower of HUD's Role must be issued and signed by each Borrower.
23 24	Copies of all documents pertaining to the original Loan must be retained in the case binder of the refinanced Loan.
25 26	Payoff statement(s) for the existing Property Improvement Loan must be retained in order to be satisfied with the proceeds of the new refinance Loan.
27	vii. Reporting the Loan in FHAC
28 29	Refinanced Loans must be reported in FHAC within 31 Days from the date of loan Disbursement.
30 31 32	When reporting a refinance, Lenders will supply information on the original Loan so that HUD may terminate the Title I insurance on the original Loan and make appropriate adjustments to the Lender's insurance coverage reserve account. HUD will also prorate

II.	ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT
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1 2	any unpaid installments on the insurance charge between the old Loan and the new Loan. Lenders are cautioned not to erroneously report a refinanced Loan as a new Loan.
3	viii. Specific Eligibility Criteria
4	(A) Simple Title I Property Improvement Refinance
5	(1) Maximum Loan Amount
6 7 8	The maximum loan amount of a Simple Title I Property Improvement Refinance is limited to the cost of prepaying the existing Loan, plus financeable fees and charges, not to exceed the <u>Title I Property Improvement Nationwide Loan Limits</u> .
9	Cash back to the Borrower is not permitted.
10	(2) Credit Qualification
11 12	Lenders must underwrite the Simple Title I Refinance Loan to ensure compliance with Title I credit and capacity requirements.
13	(B) Streamline Title I Property Improvement Refinance
14	(1) Maximum Loan Amount
15 16 17	The maximum loan amount of a Streamline Refinance is limited to the cost of prepaying the existing Loan, plus eligible fees and charges, not to exceed the original Title I loan amount.
18	(2) Credit Qualification
19	Lenders are not required to conduct credit or capacity analysis.
20	(C) Title I Property Improvement Refinance With Advance of Funds
21	(1) Maximum Loan Amount
22 23 24	The maximum loan amount is the sum of the cost of prepaying the existing Title I Property Improvement Loan, plus the cost of additional improvements, and financeable fees and charges, not to exceed the Nationwide Loan Limits .
25	(2) Use of New Loan Proceeds
26	(a) Eligible Use
27 28 29 30	 New funds must be used to finance: eligible improvements for a new work project; or additional work on an existing uncompleted project that was not financed by the prior Title I Loan.

E. Title I Insured Programs

2.	Property	Improvement	Loan	Program

1 2 3	Funds that finance additional work on an existing project may be for an upgrade, or for new work that was unexpected and necessary to further an existing project towards completion.
4	(b) Ineligible Use
5 6 7	New funds must not be advanced for completion of an existing project when the original loan funds were used for purposes different from the work scope on which the prior Title I loan amount was based.
8 9	New funds must not be advanced when the Lender has discovered <u>misuse of loan proceeds</u> , or other irregularities.
10	(3) Credit Qualification
11 12	Lenders must underwrite the Title I Refinance with an advance of funds to ensure compliance with Title I credit and capacity requirements.
13	ix. Required Documentation
14	(A) Disclosure To Borrower: "Notice to Borrower of HUD's Role"
15 16	For each new Title I insured Loan, a <u>Notice to Borrower of HUD's Role</u> must be issued and acknowledged by all Borrowers.
17	(B) Existing Loan Payoff Amount
18 19	A loan payoff statement is required on all Title I Loans secured by the Property that will be paid off with the new Title I Loan.
20	The Lender must obtain the payoff statement for all existing Loans.
21	(C) Note and Security Requirements
22 23 24	Refinancing requires the Borrower(s) to execute a new Note. The new Note must comply with the same requirements as an original <u>Title I Property Improvement</u> Loan.
25 26 27 28	When the loan amount exceeds \$7,500, the Lender must obtain and record a new Security Instrument and ensure a release of any existing Title I lien unless state law permits a renewal and extension of the original lien. Refinance Loans must comply with Title I Property Improvement <u>Lien Priority</u> requirements.
29	(D) Original Title I Case Binder
30 31	For a Title I Refinance, copies of all documents pertaining to the original Title I Loar must be retained in the refinance case binder.

E. Title I Insured Programs

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3. Dealer and Direct Loan Process for Manufactured Home Loan Program

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Refinanced Loans must be reported to HUD for insurance within 30 Days after loan
Disbursement as outlined in Closing and Disbursement. 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 prorate 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.

3. Dealer and Direct Loan Process for Manufactured Home Loan Program

a. Origination Process Options: Dealer and Direct Lenders

Loans insured under FHA's Manufactured Home Loan program are categorized by two origination processes: Dealer Loans and Direct Loans.

i. Direct Loan

(A) Definition

The Direct Loan process occurs when the Borrower applies directly to the Lender for the Manufactured Home Loan, without assistance from a Dealer or third party that has a financial interest in the loan transaction.

(B) Standard

The credit application, signed by the Borrower, may be filled out by the Borrower or by a person acting at the direction of the Borrower who does not have a financial interest in the loan transaction.

For a Direct Loan purchase transaction, loan proceeds are disbursed to the seller.

For a Direct Loan refinance transaction, proceeds are disbursed to the Note holder of the Loan being paid off.

ii. Dealer Loan

(A) Definitions

A Dealer refers to a person or business that is engaged in the business of manufactured home retail sales. Dealers of manufactured home sales have a financial interest (either direct or indirect) in the transaction.

A Dealer Loan refers to a Loan where a Dealer assists the Borrower in preparing the credit application or otherwise assists the Borrower in obtaining the Loan from the Lender. This may include completing the loan application for the Borrower, and collecting any other documentation or information as required by the Lender that is necessary to support the lending decision.

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When the Dealer does not assist the Borrower in obtaining the Loan from the Lender, 1 then the transaction is not considered a Dealer Loan. 2 3 (B) Standard 4 The Dealer may assist the Borrower in obtaining the Loan from the Lender. This may 5 include completing the loan application for the Borrower, and collecting any other documentation or information as required by the Lender that is necessary to support 6 7 the lending decision. 8 To facilitate the sale of Manufactured Homes, the Dealer may enter into a Business 9 Relationship with an FHA Title I-approved Lender that will provide financing to the home purchaser. 10 The Dealer and Title I Lender may agree to require partial or full recourse in a 11 provision in the loan documents against the Dealer to reduce or eliminate the 12 13 Lender's loss in the event of foreclosure or repossession. Recourse provisions are 14 subject to the requirements described in Recourse from Dealer. The loan documents may provide for partial or full recourse against the Dealer, and 15 must comply with requirements described in Recourse from Dealer. 16 17 b. Dealer Approval and Monitoring 18 The Lender is responsible for approving Dealers prior to the Dealer's participation in the 19 Title I Manufactured Home Loan program. The Lender must complete an investigation of the Dealer and document the findings for approval before the Dealer may begin originating Title 20 21 I Loans through the Lender. 22 i. General Criteria 23 Each Dealer must demonstrate previous business experience in manufactured home retail 24 sales. The Lender must evaluate the Dealer on the basis of experience, and approve only 25 those Dealers that the Lender considers to be reliable, financially responsible, and 26 qualified to satisfactorily perform their contractual obligations. At a minimum, each Dealer must comply with the following requirements for Dealer approval. 27 28 (A) Dealer Eligibility for Participation in HUD Programs 29 The Lender must verify that the Dealer and the Principal Owners of the dealership are 30 not excluded from participation in federal government programs and document the 31 results of their review. 32 The Lender may not contract with Entities or persons that are suspended, debarred, or 33 otherwise excluded from participation in HUD programs, or under a Limited Denial 34 of Participation (LDP) that excludes their participation in FHA programs. The Lender 35 must ensure that no TPO or contractor engages such an Entity or person to perform

1 2 3 4	any function relating to the origination of an FHA-insured Loan. The Lender must check the System for Award Management (SAM) and the Credit Alert Verification Reporting System (CAIVRS) and must follow appropriate procedures defined by that system to confirm eligibility for participation.
5	(B) Net Worth Requirement
6 7	A Dealer must have and maintain a net worth of not less than \$63,000 in assets acceptable to HUD.
8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	 The following asset types and sources are not eligible for inclusion towards the minimum net worth: any assets of the Dealer that are pledged to secure obligations of another person or Entity; any asset due from either officers or stockholders of the Dealer or related Entities, in which the Dealer's officers and stockholders have a personal interest (unrelated to their position as an officer or stockholder). "Personal interest" refers to a relationship between the Dealer and a person or Entity in which that specified person (e.g., spouse, parent, grandparent, child, brother, sister, aunt, uncle or in-law) has a financial interest in or is employed in a management position by the Dealer; any investment in related Entities in which the Dealer's officers or stockholders have a personal interest unrelated to their position as an officer or stockholder for the Dealer; that portion of an investment in joint ventures, subsidiaries, Affiliates and/or other related entities which is carried at a value greater than equity, as adjusted. "Equity as adjusted" means the book value on the books of the related Entity reduced by the amount of unacceptable assets carried by the related Entity; all intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, etc., except unamortized servicing costs carried at a value established by an Arm's Length Transaction and presented in accordance with Generally Accepted Accounting Principles (GAAP); that portion of an asset not readily marketable, and for which appraised values
32 33 34	 are very subjective, carried at a value in excess of a substantially discounted appraised value; and any asset which is principally used for the personal enjoyment of an officer or
35	stockholder and not for normal business purposes.
36	(C) Resale Agreements
37 38 39 40	As a condition of approval, a Lender may require a Dealer to execute a written resale agreement. If a Loan originated by the Dealer results in the repossession of the Manufactured Home, the agreement would require the Dealer to assist the Lender in reselling the Manufactured Home, if requested by the Lender.

ii. Approval Procedure for the Dealer

Lenders must follow the procedures listed below to approve a Dealer to participate in the Title I Manufactured Home Loan program.

(A) Application Form

A prospective Dealer must complete form <u>HUD-55013</u>, *Dealer/Contractor Application: Title I Property Improvement and Manufactured Home Loans*. The Lender must retain form HUD-55013 and all supporting documentation in its dealer file for each Dealer.

(B) 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 (CPA) 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 (P&L) statement and balance sheet to verify that the Dealer's current net worth is sufficient.

(C) Dealer 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.

(D) 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 form <u>HUD-55013</u>,
Dealer/Contractor Application: Title I Property Improvement and Manufactured Home Loans">Home Loans, 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.

(E) 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 form <u>HUD-55013</u> 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:

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3. Dealer and Direct Loan Process for Manufactured Home Loan Program

1	• the Dealer's approval and rejection rates;
2 3	 the collection history for Loans purchased from the Dealer; and the Dealer's complaint resolution practices.
4	iii. Monitoring the Dealer
5	In addition to the initial and annual dealer approval reviews, a Lender must monitor each
6	approved Dealer's activities with respect to Loans insured by HUD on an ongoing basis.
7	The Lender must take prompt action to resolve any dealer deficiencies discovered. A
8	Lender's monitoring of Dealers must include the following.
9	(A) Quality of Borrower Applicants
10	The Lender must monitor the quality of applicants submitted by the Dealer. If a
11	Dealer's rejection rate is too high, the Lender should meet with the Dealer to review
12	the Dealer's marketing and borrower qualification practices.
13	(B) Loan Documentation Quality
14	The Lender must monitor the quality and completeness of the loan documentation
15	submitted by the Dealer.
16	(C) Dealer Advertising
17	The Lender must monitor dealer advertising and other marketing material to ensure
18	against misleading or false claims. Of particular concern is advertising that uses
19	"Federal Housing Administration," "Department of Housing and Urban
20	Development," "FHA," or "HUD" to convey the impression that the Dealer has a
21	special relationship with the federal government. Other prohibited marketing
22	practices include material that states or implies that it is an official government
23	notice, Title I is a grant program, Title I provides Special Benefits for a particular
24	area or group, government funding for the program is limited in amount or for a
25	limited time period, the Borrowers are pre-approved, poor credit is acceptable, HUD
26	approved the Dealer, or the loan funds can be used for debt consolidation. Copies of
27	dealer advertisements and other marketing materials issued by the Dealer must be
28	maintained in the Dealer's file with the other required documents.
29	Special Benefits refer to benefits other than volume incentives for Dealers which a
30	home manufacturer funds from general corporate revenues by charging them against
31	corporate overhead and profit without changing the wholesale (base) price of a
32	Manufactured Home (or series of homes), as reflected in the manufacturer's published
33	wholesale (base) price list, and which are limited to payments by the manufacturer
34	directly to:
35	• a financial institution to buy down or reduce the interest rate, discount points,
36	or other fees or charges related to a lending agreement for a Dealer's

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manufactured home inventory or floor plan financing needs; or

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- 3. Dealer and Direct Loan Process for Manufactured Home Loan Program

one or more advertising media for all or part of the costs of advertising the 1 2 manufacturer's homes, one or more Dealer's services, and related 3 manufactured home materials and products in such media. 4 (D) Monitor Complaints 5 The Lender must monitor complaints received on Loans originated by the Dealer. 6 Documentation for all complaints and their resolution must be maintained in the 7 Dealer's file. Particular attention should be focused on the quality of service offered, 8 whether warranties are honored in a timely manner, and the general manner in which 9 the Dealer resolves complaints and conducts their business. (E) Prohibition of Kickbacks and other Irregularities 10 11 All credible allegations of irregularities (kickbacks, false statements, etc.) must be 12 promptly reported to either HUD's Quality Assurance Division or to HUD's Office of the Inspector General (OIG) located in the nearest HUD Field Office. 13 14 (F) Material Changes of Dealer 15 A Lender is responsible for monitoring each Dealer, including any material change in their trade name, places of business, type of ownership, type of business, or principal 16 individuals who control or manage the business. 17 Upon discovery of any material change, the Lender must determine that the eligibility 18 of the Dealer has not changed. 19 20 (G) Maintain Dealer Files 21 The Lender is to maintain a separate file for each approved Dealer. The file is to 22 include the initial application and documentation used for approval and any 23 information regarding the Lender's experience with Title I Loans involving the 24 Dealer. Each file must consist of information regarding borrower Default rates, 25 records of inspections of homes delivered and installed by the Dealer, copies of letters 26 concerning borrower complaints and their resolution, material changes, copies of dealer advertisements and other marketing materials, and records of the Lender's 27 visits to the Dealer's premises. 28 (H)Termination of the Dealer 29 30 A Dealer's approval will be terminated if a Dealer does not satisfactorily perform its 31 contractual obligations to Borrowers, does not comply with Title I program requirements, or is unresponsive to inquiries pertaining to lender supervision and 32 33 monitoring requirements. The Lender is required to notify HUD immediately with 34 written documentation of the reason(s) for termination. A Dealer whose approval is 35 terminated as a result of these circumstances may not be re-approved by a Lender

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without prior written approval from HUD.

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1 2	Notices of termination for cause and requests for permission to re-approve a terminated Dealer must be in writing and sent to:
3 4 5	U.S. Department of Housing and Urban Development Quality Assurance Division 451 Seventh St., SW Room P3214
6 7	Washington, DC 20410
8 9	A Lender may, at its discretion, terminate the approval of a Dealer for other reasons at any time.
10	4. Manufactured Home Loan Program
11 12 13 14 15 16 17 18	The Title I Manufactured Home Loan Program, Origination through Post-Closing/Endorsement section in this <i>FHA Single Family Housing Policy Handbook (SF Handbook)</i> is applicable to all Manufactured Home Loans insured under Title I of the National Housing Act. The Lender must fully comply with all of the following standards and procedures for obtaining Federal Housing Administration (FHA) insurance on a Loan. If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program or product specific standards and procedures are explicitly stated. Terms and acronyms used in this <i>SF Handbook</i> have their meanings defined in the Glossary and Acronyms sections or in the specific section of the <i>SF Handbook</i> in which the definitions are located.
20	a. Origination/Processing
21	i. Application Packages and Disclosures
22	(A) Borrower Eligibility
23	(1) Definition
24 25 26	Borrower refers to one who applies for and receives a Loan insured under this part. The term may also include any co-maker or Cosigner or any assumptor who is obligated for the repayment of a loan obligation insured under this part.
27	(2) Contents of the Loan Application Package
28 29 30 31	The Lender must maintain all information and documentation that is relevant to its approval decision in the case binder. All information and documentation that is required in this <i>SF Handbook</i> , and any incidental information or documentation related to these requirements, is relevant to the Lender's approval decision.
32 33 34	If, after obtaining all documentation required below, the Lender has reason to believe it needs additional support for the approval decision, the Lender must obtain additional explanation and documentation, consistent with information in

- E. Title I Insured Programs
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1 the case binder, to clarify or supplement the information and documentation submitted by the Borrower. 2 3 (a) Maximum Age of Loan Application Documents 4 Documents used in the origination and underwriting of a Loan may not be more than 120 Days old at the Disbursement Date. Only documents whose 5 validity for underwriting purposes is not affected by the passage of time, such 6 7 as divorce decrees or tax returns, may be more than 120 Days old at the 8 Disbursement Date. 9 For counting purposes, Day one is the Day after the effective or issue date of the document, whichever is later. 10 11 **Appraisal Validity** 12 The 120-Day age limit applies to a property appraisal conducted in connection with loan origination or claim filing (see Appraisals). The 120-Day validity 13 period may be extended for 30 Days at the option of the Lender if needed 14 during loan origination, pre-closing review, or claim processes. 15 16 (b) Handling of Documents 17 Lenders, including sponsored TPOs, must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have 18 19 been handled by, or transmitted from or through, the equipment of unknown 20 or Interested Parties, including the Borrower, the Dealer or its agent, or 21 sponsored TPOs. 22 The documents referred to in this section are Lender-generated direct verification documents, which are used to verify and supplement 23 documentation submitted by the Borrower at application. These verifications 24 are to be sent directly from the Lender to the requested responder to obtain 25 independent, written verification of employment, income, rent, or financial 26 27 accounts. 28 (i) Information Sent to the Lender Electronically 29 The Lender must authenticate all documents received electronically by 30 examining the source identifiers (e.g., fax banner header or the sender's email address) and contacting the source by telephone to verify the 31 32 document's validity. The Lender must document the name and telephone number of the individual with whom the Lender verified the validity of the 33 34 document.

1	(ii) Information Obtained via Internet
2	The Lender must authenticate documents obtained from an Internet
3	website and examine portions of printouts downloaded from the Internet
4	including the Uniform Resource Locator (URL) address, as well as the
5	date and time the documents were printed. The Lender must verify that the
6	website exists.
7	Documentation obtained through the Internet must contain the same
8	information as would be found in an original hard copy of the document.
9	(iii) Confidentiality Policy for Credit Information
10	Lenders must not divulge sources of credit information, except as required
11	by a contract or by law. All personnel with access to credit information
12	must ensure that the use and disclosure of information from a credit report
13	complies with:
14	• Fair Housing Act, 42 U.S.C. §§ 3601-3619;
15	 the Fair Credit Reporting Act (FCRA), Public Law 91-508;
16	 the Privacy Act, Public Law 93-579;
17	 the Financial Privacy Act, Public Law 95-630; and
18	 the Equal Credit Opportunity Act (ECOA), Public Law 94-239 and
19	12 CFR Part 202.
20	(c) Signature Requirements for All Application Forms
21	All Borrowers must sign and date form <u>HUD-56001-MH</u> , Credit Application
22	for Manufactured (Mobile) Home.
23	(1) The application may not be signed by any party who will not be on the
24	Note.
25	(2) A Power of Attorney (POA) may not be used unless the Lender
26	verifies and documents that all of the following requirements have
27	been satisfied:
28	 For military personnel, a POA may only be used when all of the
29	following apply:
30	o when the service member is on overseas duty or on an
31	unaccompanied tour;
32	o when the Lender is unable to obtain the absent Borrower's
33	signature on the application by mail or fax; and
34	o where the attorney-in-fact has specific authority to encumber
35	the Property and to obligate the Borrower.
36	 For incapacitated Borrowers, a POA may only be used:
37	o where a Borrower is incapacitated and unable to sign the loan
38	application; and

1 2	 where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower.
3	(d) Prohibition on Documents Signed in Blank
4 5	Lenders are <i>not</i> permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.
6	(e) Policy on Use of Electronic Signatures
7	(i) Definition
8 9 10 11 12	An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.
13	(ii) Use of Electronic Signatures
14 15 16 17	An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for loan insurance, unless otherwise prohibited by law.
18 19	Electronic signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.
20	(iii)Electronic Signature Performance Standards
21 22 23 24	The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, Lenders choosing to use electronic signatures must fully comply with the Performance Standards.
25 26	The Electronic Signatures in Global and National Commerce Act (E-SIGN Act) Compliance and Technology
27 28 29 30	A Lender's electronic signature technology must comply with all requirements of the E-SIGN Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.
31	Third Party Documents
32 33	Third Party Documents refer to those documents that are originated and signed outside of the control of the Lender, such as the sales contract.

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1 2 3 4 5 6	in the case binder for loan insurance endorsement in accordance with the E-SIGN Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.
7	Authorized Documents
8 9 10	Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the Lender complies with the Performance Standards.
11 12 13	• Loan Insurance Endorsement Documents: Electronic signatures will be accepted on all documents requiring signatures included in the case binder for loan insurance.
14 15 16	 Servicing and Loss Mitigation Documentation: Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured Loans.
17 18 19 20	• FHA Insurance Claim Documentation: Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form HUD-637, <i>Title I Claim for Loss</i> .
21	Associating an Electronic Signature with the Authorized Document
22 23 24 25 26	The Lender must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The Lender must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.
27	Intent to Sign
28 29 30 31 32	The Lender must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the E-SIGN Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:
33 34 35 36	 identifying the purpose for the Borrower signing the electronic record; being reasonably certain that the Borrower knows which electronic record is being signed; and

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2	• providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.
3 4	Intent to use an electronic signature may be established by, but is not limited to:
5 6	 an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
7 8 9	 an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
10 11	 a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.
12	Single Use of Signature
13 14	Lenders must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.
15 16 17 18	This provision does not apply to documents signed by Lender employees or Lender contractors provided the Lender obtains the consent of the individual for the use of their electronic signature. The Lender must document the Borrower's consent.
19	Authentication - Definition
20 21	Authentication refers to the process used to confirm a signer's identity as a party in a transaction.
22	Authentication - Standard
23 24 25 26	Before a Lender reports the Loan for insurance, the Lender must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source. Independent sources include, but are not limited to:
27	• national commercial credit bureaus;
28 29	 commercially available data sources or services; state motor vehicle agencies; or
30	 government databases.
31 32	The Lender must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.
33	Attribution - Definition
34 35	Attribution is the process of associating the identity of a signer with their signature.

1	Attribution - Standard
2 3 4	The Lender must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.
5 6 7 8 9 10 11 12 13 14 15 16 17 18	 The Lender must use one of the following methods, or combinations of methods, to establish attribution: selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process; delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method; knowledge base authentication using "out of band/wallet" information; measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or public key cryptography.
20	Credential Loss Management
21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37	 Lenders must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable: maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password; ensuring that identification code and password issuances are periodically checked, recalled, or revised; following loss management procedures to electronically deauthorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls; using transaction safeguards to prevent unauthorized use of passwords or identification codes; or detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.
38	(f) Required Documentation and Integrity of Records
39 40	Lenders must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed.

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Lenders must ensure that their systems will detect and record any tampering 1 2 with the electronically signed documents. FHA will not accept documents that 3 show evidence of tampering. 4 If changes to the document are made, the electronic process must be designed 5 to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them. 6 7 The Lender's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an 8 electronically signed document refers to the electronic record that is 9 designated by the Lender or holder as the controlling reference copy. 10 11 (3) Credit Application and Initial Supporting Documentation 12 The Lender must obtain the Borrower's initial complete, signed form 13 HUD-56001-MH, Credit Application for Manufactured (Mobile) Home, before 14 underwriting the loan application. (a) Interview with Borrower 15 The Lender must conduct a telephone or face-to-face interview with the 16 Borrower and any co-maker or Cosigner, resolve any material discrepancies, 17 and ensure that the information, including listed debts and obligations, is 18 19 accurate and complete. (b) Dealer Certification 20 Dealers who participate in the Borrower's purchase of a Manufactured Home 21 22 must sign the certification on the last page of the Credit Application (HUD-23 56001-MH). 24 (c) Credit Application Name Requirements (i) Standard 25 All credit applications *must* be executed in the legal names of one or more 26 27 individuals on the application. 28 Credit applications from a corporation, partnership, sole proprietorship, 29 nonprofit or trust (including living or non-revocable trusts) are not 30 permitted under Title I.

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1	(ii) Required Documentation
2 3 4	The Lender must verify the Borrower's identity using a valid government issued photo identification prior to insuring. A copy of the photo identification must be retained in the case binder.
5	(4) Borrower's Authorization
7 8 5 5 9 11 10 6 6	The Lender must obtain the Borrower's authorization to verify the information needed to process the loan application. The Lender must obtain a Non-Borrowing Spouse's consent and authorization where necessary to verify specific information required to process the loan application, including the Non-Borrowing Spouse's consent for the Lender to verify their SSN with the Social Security Administration (SSA).
12 13	(5) Borrower's Authorization for Use of Information Protected under the Privacy Act
14	(a) Standard
15 16 17 18 19	The Lender must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the Loan or, if applicable, the Property securing the Loan, and relating to any insurance claim and ultimate resolution of such claims by the Lender and FHA.
20	(b) Required Documentation
21 22 23	The Lender must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.
24	(6) Purchase Contract and Required Documentation
25	(a) Standard
26 27 28 29	The Lender must not originate an insured Loan for the purchase of a Property if any provision of the purchase contract violates FHA requirements. An addendum or modification may be used to remove or correct nonconforming provisions.
30 31	The Lender must ensure (1) all purchasers listed on the sales contract are Borrowers, and (2) all Borrowers sign the sales contract.

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1	(b) Required Documentation
2 3	The Lender must obtain a complete copy of the purchase contract including any modifications or revisions agreed upon by buyer and seller.
4	(c) Property Appraisal
5 6	The Borrower must receive a copy of the property appraisal when an appraisal is required for FHA insurance endorsement.
7 8	When an appraisal report is required, the Lender must give the Borrower a copy of the property appraisal report at least three Days prior to loan closing.
9 10 11	 A property appraisal is not required in connection with: purchase of a New Manufactured Home; or refinance of an FHA-insured Loan that secures a Manufactured Home.
12	(B) Disclosures and Legal Compliance
13 14	The Lender must provide or ensure the Borrower is provided with the following disclosure.
15	(1) Notice to Borrower of HUD's Role in Title I Loans
16	(a) Standard
17 18 19 20 21	The Lender must provide a written notice to clearly inform each Borrower that the Loan will be insured against Default by HUD and about the actions that HUD will take 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.
22	(b) Required Documentation – Borrower Acknowledgement
23 24 25	The Lender must have each Borrower sign a copy of the notice at loan application. The copy signed by the Borrower(s) must be retained in the case binder.
26	(c) Required Documentation – Wording of the Notice
27 28	The Lender must prepare the notice on the Lender's letterhead. The notice must read as follows:
29 30 31 32	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 lender as agreed, we may foreclose or repossess the home or other property securing this loan and sell it. It is important for you to

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understand that the value of the property at the time of 1 2 repossession/foreclosure may be less than the unpaid balance on your 3 loan, leaving you liable for the difference. 4 After your property is sold, we may assign the remaining debt to HUD for 5 collection. 6 Failure to pay this debt to HUD may result in offset of Federal payments 7 due you (including Federal income tax refunds, Social Security benefit 8 payments, and Federal employee wages or retirement) or may result in the 9 administrative garnishment of your wages. In addition, failure to pay may 10 result in the referral of the debt for collection to the Department of 11 Justice, to the Department of Treasury, or to private collection agencies. 12 In addition to principal and interest on the debt, you will be liable for the 13 payment of any penalties or administrative costs that may be imposed by 14 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 15 16 notice, and that you consent to pay any penalties, administrative costs, 17 and interest that may be assessed by HUD. 18 (2) Compliance with All Applicable Laws, Rules, and Requirements 19 The Lender must comply with all laws, rules, and requirements applicable to the 20 loan transaction, including full compliance with the requirements applicable to the 21 following under the purview of the Consumer Financial Protection Bureau 22 (CFPB): 23 Truth in Lending Act (TILA) Real Estate Settlement Procedures Act (RESPA) 24 25 (3) Nondiscrimination Policy 26 The Lender must fully comply with all applicable provisions of: Fair Housing Act, 42 U.S.C. §§ 3601-3619; 27 the FCRA, Public Law 91-508; and 28 29 the ECOA, Public Law 94-239 and 12 CFR Part 202. 30 The Lender must make all determinations with respect to the adequacy of the 31 Borrower's income in a uniform manner without regard to race, color, religion, 32 sex, national origin, familial status, disability, marital status, actual or perceived 33 sexual orientation, gender identity, source of income of the Borrower, or location 34 of the Property.

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(C) Application Document Processing

The Lender must order the FHA case number and perform any associated tasks performed directly in FHA Connection (FHAC). The Lender may use non-employees in connection with its origination of FHA-insured Loans only as described below.

The Lender ultimately remains responsible for the quality of the Loan and strict compliance with all applicable FHA requirements, regardless of the Lender's relationship to the person or Entity performing any particular service or task.

(1) Sponsored Third-Party Originator

The Title I Lender is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Lenders/Mortgagees acting in the capacity of a sponsored TPO may have direct access to FHAC.

(2) Dealer

The Lender is responsible for approving and monitoring a Dealer and dictating the specific application and processing tasks that the Dealer performs.

(3) Contract Service Providers

A Lender may use qualified contractors to perform the administrative and clerical loan processing functions, provided the contractors do not have an interest in the transaction. These contractors perform the following functions: typing loan documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping Loans to Investors.

(4) Excluded Parties

The Lender may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. The Mortgagee must ensure that no sponsored TPO or contractor engages such an Entity or person to perform any function relating to the origination of an FHA-insured Mortgage.

The Lender must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

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1	(5) Underwriter Qualifications
2 3 4	HUD does not approve nor require Direct Endorsement certification for Title I underwriters. Title I Lenders approve the underwriter based on demonstrated capabilities and knowledge in loan underwriting.
5 6 7 8	The Lender must register each underwriter in FHAC. By registering the underwriter in FHAC, the Lender certifies that the underwriter meets the necessary qualifications to underwrite Title I Property Improvement Loans. The underwriter must be a full-time employee of the Lender.
9	(D) Initial Document Processing
10 11	The Lender begins processing the Loan by obtaining form <u>HUD-56001-MH</u> , <i>Credit Application for Manufactured (Mobile) Home</i> .
12	(E) Case Number Assignment
13 14 15 16 17	A Lender reports all prospective Title I Manufactured Home Loans to HUD via the "Case Number Assignment" screen on the <u>FHAC</u> portal web site. The information required on this screen includes general loan information, and 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.
18 19 20 21	This process verifies the submitted data 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.
22	(1) Case Numbers on Sponsored Originations
23 24	The Lender will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in FHAC.
25	(2) Cancelling a Case Number
26 27 28	The Lender may cancel FHA case numbers in FHAC under the following circumstances: • an appraisal has not been completed and the Borrower will not close the
29 30	loan as an FHA-insured Loan;the FHA insurance will not be sought; or
31	 the PTTA insurance will not be sought, or the appraisal has already expired.

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- 4. Manufactured Home Loan Program

1	ii.	Manufactured Home Loan Eligibility and Purpose
2		(A) Definition
3 4 5 6		Manufactured Home Loan refers to a Loan for the purchase or refinancing of a Manufactured Home and/or the lot on which to place such home. Unless otherwise indicated, the term includes Manufactured Home Purchase Loans, Manufactured Home Lot Loans, and Combination Loans.
7 8 9		Manufactured Home Purchase Loan refers to a Loan for the purchase or refinancing of a manufactured home exclusive of any lot or site, and may also include a garage, patio, carport, or other comparable appurtenance.
10 11 12		A Combination Loan refers to a Loan made for the purchase or refinancing in a single transaction of a Manufactured Home and a manufactured home lot, and may also include a garage, patio, carport, or other comparable appurtenance.
13		(B) Standard
14		The loan proceeds may be used for the following loan types and purposes.
15		(1) Manufactured Home Loan
16 17		A Manufactured Home Loan is used to purchase or refinance a Manufactured Home unit.
18		(2) Manufactured Home Lot Loan
19 20		A Manufactured Home Lot Loan is used to purchase a parcel of real estate to be used as the site for the placement of a Manufactured Home unit.
21		(3) Combination Loan (Manufactured Home and Lot)
22 23 24		A Combination Loan is used to purchase or refinance a Manufactured Home unit and a parcel of real estate to be used as the site for the placement of a Manufactured Home unit.
25		(C) Refinance
26 27		A <u>refinance transaction</u> establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property.
28 29		The refinance Loan may also advance additional funds for the purchase of a home or lot, which is also referred to as a Combination Loan.

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1	(D) General Borrower Eligibility Requirements
2 3	In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.
4 5 6	A party who has a financial interest in the loan transaction, such as the seller, builder or real estate agent, may not be a co-Borrower or a Cosigner. Exceptions may be granted when the party with the financial interest is a Family Member.
7	(1) Social Security Number
8	(a) Standard
9 10 11 12	Each Borrower must provide evidence of their valid Social Security Number (SSN) to the Lender. Individuals employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD are not required to provide an SSN.
13	(b) Required Documentation
14 15 16 17 18 19 20 21 22 23 24 25	 Validate and document an SSN for each Borrower, co-Borrower, or Cosigner on the Loan by: entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through FHAC; examining the Borrower's original pay stubs, W-2 forms, valid tax returns obtained directly from the Internal Revenue Service (IRS), or other document relied upon to underwrite the Loan; and resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during loan processing and underwriting using a service provider to verify the SSN with the Social Security Administration (SSA).
26	(2) Borrower Age Limits
27 28 29	The Borrower must be old enough to enter into a loan Note that can be legally enforced in the State, or other jurisdiction, where the Property is located (state law). There is no maximum age limit for a Borrower.
30	(3) Occupancy
31 32 33	The Borrower must own and occupy the Manufactured Home as a Principal Residence. Non-Occupant Borrowers are not permitted unless there is proof that they are exempted due to military service with overseas assignments.

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- 4. Manufactured Home Loan Program

1	(4) Borrower and Co-Borrower Ownership and Obligation Requirements
2 3 4	To be eligible, all Borrowers and co-Borrowers must take title to the Property at settlement, be obligated on the Note or credit instrument, and sign all Security Instruments.
5 6 7	Not all individuals with an interest in the Property are required to be Borrowers. However, the Loan must be executed by all parties necessary to make the lien valid and enforceable under state law.
8	(5) Military Personnel Eligibility
9	(a) Standard
10 11 12 13 14 15	Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered Owner-Occupant Borrowers and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service.
16	(b) Required Documentation
17 18 19	The Lender must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property.
20 21	The Lender must obtain the Borrower's intent to occupy the subject Property upon discharge from military service.
22	(6) Citizenship and Immigration Status
23	U.S. citizenship is not required for loan eligibility.
24	(7) Residency Requirements
25 26 27	The Lender must determine the residency status of the Borrower based on information provided on the loan application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status
28	(a) Lawful Permanent Resident Aliens
29	(i) Standard
30 31 32	A Borrower with lawful permanent resident alien status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

1	(ii) Required Documentation
2 3 4	The case binder must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on form <u>HUD-56001-MH</u> , Credit Application for Manufactured (Mobile) Home.
5 6 7	The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.
8	(b) Non-Permanent Resident Aliens
9 10 11 12 13 14 15 16	 A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided: the Property will be the Borrower's Principal Residence; the Borrower has a valid SSN; the Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS; and the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.
17 18 19 20 21 22	The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the Lender may assume that continuation will be granted. If there are no prior renewals, the Lender must determine the likelihood of renewal based on information from the USCIS.
23 24 25 26	A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.
27	(c) Non-U.S. Citizens without Lawful Residency
28 29	Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Loans.
30	(8) Borrower Ineligibility due to Delinquent Federal Non-Tax Debt
31	(a) Standard
32 33 34 35 36	Lenders are prohibited from processing an application for an FHA-insured Loan for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages or Loans. Lenders are required to determine if the Borrowers have delinquent federal non-tax debt. Lenders may obtain information on delinquent Federal

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Debts from public records, credit reports or equivalent, and must check all 1 2 Borrowers against the Credit Alert Verification Reporting System (CAIVRS). 3 (b) Verification 4 If a delinquent Federal Debt is reflected in a public record, credit report or 5 equivalent, or CAIVRS or an Equivalent System, the Lender must verify the validity and delinquency status of the debt by contacting the creditor agency 6 7 to whom the debt is owed. If the debt was identified through CAIVRS, the 8 Lender must contact the creditor agency using the contact phone number and 9 debt reference number reflected in the Borrower's CAIVRS report. 10 If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act of 1996, then the 11 Borrower is ineligible for an FHA-insured Loan until the Borrower resolves 12 13 the debt with the creditor agency. 14 The Lender may not deny a Loan solely on the basis of CAIVRS information that has not been verified by the Lender. If resolved either by determining that 15 16 the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Lender may continue to process the loan 17 18 application. (c) Resolution 19 20 In order for a Borrower with verified delinquent Federal Debt to become 21 eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act of 1996. 22 23 The creditor agency that is owed the debt can verify that the debt has been 24 resolved in accordance with the Debt Collection Improvement Act. 25 (d) Required Documentation 26 The Lender must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through 27 28 CAIVRS, the Lender may obtain evidence of resolution by obtaining a clear CAIVRS report. 29 (9) Eligibility Period for Borrowers Delinquent on FHA-insured Loans 30 31 If a Borrower is currently Delinquent on an FHA-insured Loan, they are ineligible 32 for insurance on a new FHA Loan unless the delinquency is resolved.

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1	(10) Delinquent Federal Tax Debt
2	(a) Standard
3	Borrowers with delinquent Federal Tax Debt are ineligible.
4 5 6 7 8 9	Tax liens may remain unpaid if the Borrower has entered a valid repayment agreement with the federal agency owed to make regular payments on the debt, and the Borrower has made timely payments for at least three months of scheduled payments prior to the date of application. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
10 11	The Lender must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.
12	(b) Verification
13 14 15 16	Lenders must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.
17	(c) Required Documentation
18 19	The Lender must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.
20	(11) Valid First Liens
21	(a) Standard
22 23 24	The Borrower must be able to provide a valid first lien on the Property securing the debt. The Lender must ensure that the Property will be free and clear of all liens other than for the FHA-insured Manufactured Home Loan.
25	(b) Consent of Non-Purchasing Spouses
26 27 28	If it is necessary to perfect a valid first lien under state law, the Lender must require a non-purchasing spouse to execute either the Security Instrument or documentation indicating that they are relinquishing all rights to the Property.
29	(c) Required Documentation
30 31	The lien must be documented in the case binder by a Lender or deed of trust, executed by the Borrower and in Fee Simple.

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1	(12) Eligibility Requirements for Living Trusts
2	(a) Property Held in Living Trusts
3 4	The Lender must not originate a Title I Manufactured Home Loan for a Property held by the Living Trust.
5	(b) Living Trusts and Security Instruments
6 7	The Security Instrument, such as a Loan or deed of trust, must not name a Living Trust as property Owner.
8 9	The individual borrower name(s) must appear on the Security Instrument, property deed, and title.
10	(E) Excluded Parties
11	(1) Borrower
12	(a) Standard
13 14 15	A Borrower is not eligible to participate in FHA-insured loan transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.
16	(b) Required Documentation
17 18 19	The Lender must check the HUD <u>Limited Denial of Participation</u> (LDP) list to confirm the Borrower's eligibility to participate in an FHA-insured loan transaction.
20 21 22	The Lender must check the <u>System for Award Management</u> (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.
23	(2) Other Parties to the Transaction
24	(a) Standard
25 26 27 28	A Loan is not eligible for FHA insurance if anyone participating in the loan transaction is found on HUD's LDP list or in SAM. This may include but is not limited to: • Borrower
29 30 31 32	 seller (except where selling the Principal Residence) Dealer or retailer listing or selling real estate agent loan officer

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1 2 3 4	 loan processor underwriter Appraiser broker
5	(b) Required Documentation
6 7 8	The Lender must check the HUD LDP list and SAM, and must follow appropriate procedures defined by that system to confirm eligibility for participation.
9 10	(3) FHA Policy Limiting the Number of Title I Manufactured Home Loans per Borrower
11	(a) Standard
12 13 14	A Borrower with an existing FHA-insured Manufactured Home Loan may not obtain an additional FHA-insured Manufactured Home Loan with Title I insurance.
15 16	A Borrower with an existing FHA-insured Manufactured Home Loan may obtain a <u>Title I FHA-insured Property Improvement Loan</u> .
17	(b) Required Documentation
18 19 20	Each Borrower purchasing a Manufactured Home must sign form <a <="" href="https://example.com/html/> <u>HUD-56002-MH" u="">, <i>Placement Certificate for Manufactured Home</i>, to certify that the Property will be the Borrower's Principal Residence.
21 22 23 24 25 26	The Lender must review form <u>HUD-56001-MH</u> , <i>Credit Application for Manufactured (Mobile) Home</i> , and other loan documents to assess if the Borrower owns Property other than Property associated with the transaction. If the Borrower owns other Property, an attachment to the <i>Credit Application</i> must identify the property address, expenses for debt, taxes and insurance, and its use as either a Secondary Residence or for investment.
27	(F) Occupancy Types
28	(1) Principal Residence
29	(a) Definition
30 31 32 33	A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

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1	(b) Standard
2	(i) FHA Requirement for Establishing Owner Occupancy
3 4	All Borrowers must occupy the Property within 60 Days of signing the Security Instrument.
5	(ii) FHA Insurance on a Principal Residence
6 7 8 9	FHA will <i>not</i> insure a Manufactured Home Loan if it is determined that the transaction was designed to use FHA loan insurance as a vehicle for obtaining Investment Properties, even if the Property to be insured will be the <i>only</i> one owned using FHA loan insurance.
10	(2) Secondary Residence
11	(a) Definition
12 13 14	A Secondary Residence refers to a Structure that a Borrower occupies in addition to their Principal Residence, but less than a majority of the calendar year. A Secondary Residence does not include a Vacation Home.
15	(b) Standard
16 17	Secondary Residences are not permitted under the Title I Manufactured Home Loan program.
18	(3) Investment
19	(a) Definition
20 21	An Investment Property refers to a Property that is <i>not</i> occupied by the Borrower as a Principal or Secondary Residence.
22	(b) Standard
23 24	Investment Properties are not permitted under the Title I Manufactured Home Loan program.
25	(G)General Property Eligibility
26	(1) Eligible Geographic Locations
27 28 29	The Property must be located within the U.S., Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

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1 2	(2) Restrictions on Property Locations within Coastal Barrier Resources System
3	In accordance with the Coastal Barrier Resources Act, a Property is not eligible
4	for FHA loan insurance if the improvements are in or are proposed to be located
5	within the Coastal Barrier Resources System (CBRS).
6	(3) Hazard Insurance
7	(a) Standard
8	Hazard insurance is required for all Manufactured Homes and must be
9	maintained for the life of the insured Loan. Hazard insurance is not required
10	for FHA-insured Loans that secure a lot.
11	The minimum amount of insurance must be the greater of the unpaid balance
12	due on the Title I Loan or the actual value of the home where state law
13	precludes a higher amount.
14	The Lender must be named as the loss payee.
15	(b) Lender Responsibilities
16	If during the lender term the Borrower does not maintain the required hazard
17	insurance, the Lender must obtain the insurance and may pass on the expense
18	to the Borrower. The Lender assumes the risk and potential costs on a
19	Property that is not insured in compliance with the above requirements.
20	(c) Required Documentation
21	The Lender must maintain a copy of the Declarations page throughout the life
22	of the Loan.
23	(4) Special Flood Hazard Areas
24	The Lender must determine if a Property is located in a Special Flood Hazard
25	Area (SFHA) as designated by the Federal Emergency Management Agency
26	(FEMA).
27	The Lender must obtain flood zone determination services, independent of any
28	assessment made by the Appraiser, to cover the Life of the Loan Flood
29	Certification.
30	Flood insurance under the National Flood Insurance Program (NFIP) is required
31	when any portion of the home site or residential improvement is located in an
32	SFHA identified by FEMA using the Life of the Loan Flood Certification, and
33	must be maintained for the life of the insured Loan.

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2 3 4 5	A Property is not eligible for FHA insurance if a home site on which a Manufactured Home is placed is located within SFHA Zone A, a Special Flood Hazard Area, or Zone V, a Coastal High Hazard Area, and insurance under the NFIP is not available in the community; or the home site is, or is proposed to be, located within a CBRS.
6	(5) Flood Insurance
7	(a) Standard
8 9 10	Prior to closing, Lenders must inform Borrowers of the requirement to have or obtain adequate flood insurance as a condition of closing for Properties where any portion of the Property is located in an SFHA.
11 12	Lenders and Servicers must ensure that Borrowers maintain adequate flood insurance during the life of the Loan.
13 14 15 16	Insurance must be obtained if the Lender or Servicer becomes aware that the home site involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. The insurance must be maintained by the Borrower for the remaining term of the Loan.
17 18	Lenders must force place flood insurance if the Borrower allows the policy to lapse or if the coverage is found to be inadequate.
19	(b) Required Documentation
20 21	The Lender must obtain the Life of the Loan Flood Certification indicating whether or not the home site is located within an SFHA.
22 23 24	When the home site is located in an SFHA, the Lender must provide a copy of the pages from the flood insurance policy showing the coverage amount required by the NFIP and reflecting the Lender as the loss payee.
25	b. Allowable Loan Parameters
26	i. Maximum Loan Amounts
27 28 29 30 31 32	 All Loans are subject to loan amount limits based on all of the following: Nationwide Loan Limits; Minimum Cash Investment (MCI); Minimum Decision Credit Score limitations; maximum Loan-to-Value (LTV); and LTV calculation applicable to the transaction type.
33	Unless explicitly stated for a transaction type, the loan limits apply to all property types

and loan purposes.

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(A) Nationwide Loan Limits

A Loan that is to be insured by FHA cannot exceed the Nationwide Loan Limits published by HUD, including any <u>Financeable Fees and Charges</u>.

Loan Type	Purpose	Loan Limit
Manufactured	To purchase or refinance a	\$69,678
Home	Manufactured Home unit	
Lot Loan	To purchase and develop a lot on	\$23,226
	which to place a Manufactured	
	Home	
Combination	To purchase or refinance a	\$92,904
Loan for Lot and	Manufactured Home and lot on	
Home	which to place the home	

The Nationwide Loan Limits may be adjusted following HUD's annual review of Manufactured Home price data collected by the Census Bureau. Areas designated as high cost will have higher nationwide loan limits.

(B) Required Investment

(1) Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower's downpayment and the Borrower-paid transaction costs. The Total Required Investment includes the MCI.

(2) Minimum Cash Investment

Minimum Cash Investment (MCI) refers to the Borrower's contribution in cash or its equivalent required, which represents at least 5 percent of the total purchase price for a maximum LTV of 95 percent. The MCI for a Borrower with a credit score of 500 and below will be 10 percent of the total purchase price.

When the credit report reflects that a score is not available from any of the three credit reporting agencies, and non-traditional underwriting demonstrates that the Borrower has satisfactory credit, then an MCI of at least 5 percent of the total purchase price is required. See Credit Requirements for credit report requirements.

Credit	Minimum	Maximum
Score	Downpayment	LTV
Above 500	5%	95%
500 and	10%	90%
Below	- / •	2 2 , 2

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(C) LTV Limitations Based on Borrower's Credit Score

The Lender must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS).

The MDCS will be used to determine the maximum insured financing available to a Borrower with traditional credit.

The table below describes the relationship between the Borrower's MDCS and the LTV ratio for which they are eligible.

If the Borrower's Minimum	Then the maximum Loan-to-
Decision Credit Score is	Value is
Above 500	95%
500 and below	90%

(D) Calculating the Loan-to-Value

The Lender must calculate the LTV to determine the maximum Base Loan Amount, which is the amount prior to adding in the Upfront Insurance Premium (UFIP). The Base Loan Amount may be increased by the financed UFIP amount, but must not exceed the Nationwide Loan Limits.

The LTV is calculated according to the specific loan purpose.

(E) Calculating the Maximum Loan Amount Purchase Transactions

(1) Maximum Base Loan Amount for New Manufactured Home

The maximum Base Loan Amount is determined by applying the minimum downpayment requirement (5 percent or 10 percent), and multiplying the maximum LTV factor (95 percent or 90 percent) by the sum of the following amounts:

- 130 percent of the sum of the wholesale (base) price of the home plus eligible itemized options, including the charge for freight, as detailed on the Manufacturer's Invoice;
- sales tax to be paid by the Borrower, as detailed in the retail sales purchase 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);
- Dealer's 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); and
- Financeable Fees and Charges.

Ε.	Title	I Insured	Programs
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4. Manufactured Home Loan Program

1	(2) Maximum Base Loan Amount for Existing Manufactured Home
2 3	The maximum Base Loan Amount is determined by multiplying the appropriate LTV factor (95 percent or 90 percent) to the lesser of:
4	• the appraised value of the home as described in the sales contract,
5	including any Eligible Options and Accessories itemized in the sales
6	contract or documented in the file; or
7	 the purchase price of the home, including costs to the Borrower for all
8	items described in the purchase contract and any Eligible Options and
9	Accessories as documented in the file.
10	(3) Eligible Options or Costs
11	Eligible options or costs include:
12	 sales tax to be paid by the Borrower, as described in the purchase contract;
13	• actual costs of transportation to the home site, set-up and anchoring,
14	including the rental of wheels and axles (if home is being relocated);
15	• actual cost for new skirting, garage, carport, patio, or other appurtenance,
16	and for purchase and installation of a central air conditioning system or
17	heat pump; and
18	• <u>Financeable Fees and Charges</u> in the Loan.
19	(4) Ineligible Costs
20	Ineligible costs cannot be financed into the loan amount. Ineligible costs include
21	Furniture, personal items (rugs, draperies, lamps, etc.), small appliances that are
22	not part of the Property (toasters, TVs, etc.), and the purchase of wheels and
23	axles.
24	(F) Required Documentation for LTV Calculation
25	The case binder must contain:
26	 a summary page that itemizes the expenses and reflects calculations used to
27	determine the LTV ratio; and
28	 the supporting documents for itemized costs, as applicable:
29	o purchase contract; and
30	o receipts or invoices to evidence actual cost of allowable items, when not
31	reflected in the purchase contract.
32	ii. Loan Term
33	(A) Minimum Loan Term
34	The minimum loan term for all property types and purposes is six months.

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(B) Maximum Loan Term

2 The maximum term is limited according to the type of Property secured.

The maximum loan term for a single unit Combination Loan may not exceed 20 years and 32 Days from the date of the Loan. The maximum loan term for a multi-unit Combination Loan may not exceed 25 years and 32 Days from the date of the Loan.

Property Type	Maximum Loan Term
Manufactured Home	20 years, plus 32 Days
Manufactured Home Lot	15 years, plus 32 Days
Single Unit Manufactured Home and	20 years, plus 32 Days
Lot	20 years, plus 32 Duys
Multi-Unit Manufactured Home and	25 years, plus 32 Days
Lot	25 years, plus 32 Days

iii. Loan Insurance Premiums

FHA collects a UFIP and an annual insurance premium charge for eligible Loans originated under the FHA Title I Manufactured Home Loan program.

(A) Upfront Insurance Premium

(1) Upfront Insurance Premium Amount

FHA's Manufactured Home insurance program requires the payment of UFIP, which may be financed into the Loan. The UFIP is 2.25 percent of the Base Loan Amount.

The UFIP charge may be financed into the Loan in full or in part, provided that the Total Loan Amount does not exceed the <u>Nationwide Loan Limits</u>. If all or part of the UFIP exceeds the Nationwide Loan Limits, the Borrower must pay the excess in cash.

Unless otherwise stated in this section (Underwriting the Transaction), restrictions to loan amounts and LTVs are based upon the amount prior to the financing of the UFIP (Base Loan Amount). The Total Loan Amount may be increased by the financed UFIP amount.

(2) Refund and Credit of Upfront Insurance Premium

FHA will only refund the UFIP 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 of the subject Loan.

1	(B) Annual Loan Insurance Premium
2 3 4	The periodic loan insurance premium is an annual loan insurance premium that is payable monthly. The loan insurance premium charge is 1.0 percent of the remaining principal balance, based upon the Loan's scheduled amortization.
5 6	The loan insurance premium must be paid for the full term of the Loan unless the Loan is prepaid in full or the Lender files a claim with FHA.
7	(C) Lender Responsibilities
8	(1) Insuring an Advance of Credit
9 10 11 12 13 14	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.
15	(2) Passing Insurance Premiums to Borrower
16 17 18	The UFIP and annual insurance premiums are obligations of the Lender. The Lender may pass the premium charges on to the Borrower, provided that such charges are fully disclosed.
19 20 21 22 23	To pass the obligation to pay UFIP 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
24 25	principal amount on the retail sales installment contract and the amount of the financeable upfront insurance charge;
26 27	 pay the Lender for any portion of the upfront insurance charge that cannot be financed; and
28 29 30	• pay the Lender for the monthly insurance charge (1/12 th of the annual premium) in addition to the monthly Loan Payment set in the retail sales installment contract.
31 32	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 against contrast that is executed by all Porrowars on the Loop, at the same time that
33 34	sales contract that is executed by all Borrowers on the Loan, at the same time that the retail installment sales contract is executed.

- **E.** Title I Insured Programs
- 4. Manufactured Home Loan Program

1	(D) Required Documentation
2	(1) Borrower's Agreement to Pay Loan Insurance Premiums
3 4 5	The Lender's file must contain the Borrower's agreement to pay loan insurance premiums. The agreement may be effectuated through the form of a rider to the retail installment contract or other method, and must be signed by all Borrowers.
6	(2) Rider for Insurance Premiums
7 8 9	Loans originated by Dealers must have the Borrower execute a rider for loan insurance premiums, which authorizes the Lender to charge the Borrower for the charges.
10	(3) Suggested Language for Rider for Insurance Premiums
11 12 13	FHA does not supply a form for the rider. Lenders may use the suggested language as follows on their letterhead. The form must be signed by all Borrower obligated on the Loan.
14	RIDER – UPFRONT INSURANCE PREMIUM
15 16 17 18	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).
19 20 21 22 23 24 25 26	The loan 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:
27	CHECK APPLICABLE BOXES
28	Upfront Insurance Premium Fully Financed.
29 30 31 32 33 34 35	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 lender. 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).

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	Upfront Insurance is Partially Financed.
2	The upfront premium is (insert number) percent of \$, the amount financed
3	shown on the face of the retail sale installment contract, which equals \$(insert number).
4	The upfront premium, when added to the amount financed, results in a new amount
5	financed that exceeds FHA's maximum loan amount, and therefore the upfront premium
6	is partially financed with this lender, to the extent that it results in a new amount
7	financed equal to the FHA maximum loan amount. Borrower(s) will pay the lender the
8	balance of the upfront premium The new amount financed is \$(insert original amount
9	<u>financed + financeable amount of upfront premium)</u> . As a result of the increase in the
10	amount financed, the monthly payment is \$(insert new amount).
11	Upfront Insurance Cannot be Financed.
12	The upfront premium is (insert number) percent of \$, the amount financed
13	shown on the face of the retail sale installment contract, which equals \$(insert number).
14	The upfront premium cannot be financed because the amount financed is equal to FHA's
15	maximum loan amount. Borrower(s) will pay the lender the upfront premium.
16	Annual Premium Cannot be Financed
17	The annual premiums are based upon the declining balance of the original amount
18	financed, and thus will change every year. Borrower(s) will pay 1/12 of each annual
19	premium each month in addition to the monthly loan payment set forth in paragraph (a).
20	The initial monthly premium payment is \$(insert number). The lender will advise the
21	borrower(s) of each annual change in the monthly premium payment.
22	c. Property Requirements
23	i. Definitions
24	(A) Manufactured Home
25	A Manufactured Home refers to a transportable Structure, comprised of one or more
26	modules, each built on a permanent chassis, with or without a permanent foundation,
27	designed for occupancy as a Principal Residence by a single family.
28	(B) New Manufactured Home
29	A New Manufactured Home refers to a home, which has not been previously
30	occupied, purchased by a Borrower within 18 months after the date of manufacture.
31	(C) Existing Manufactured Home
32	An Existing Manufactured Home refers to a home purchased later than 18 months
33	after the date of manufacture; it must be appraised to determine the maximum loan
34	amount.

(D) Manufactured Home Lot

Manufactured Home Lot refers to a portion of land owned or to be owned by the Borrower as realty, and is suitable for placement of a Manufactured Home. The manufactured home lot may consist of:

- platted or unplatted land, a lot in a recorded or unrecorded subdivision or in an improved area of such subdivision, or a lot in a Planned Unit Development (PUD); or
- an interest in a manufactured home Condominium Project (including any interest in the common areas) or a share in a cooperative association that owns and operates a manufactured home park.

(E) Manufactured Home

A Manufactured Home is constructed in compliance with the Manufactured Home Construction and Safety Standards Act of 1974 (42 U.S.C. §§ 5401-5426) at 24 CFR Part 3280, and is exclusive of the land on which the home is set. The Property may include the garage, patio, carport or other comparable appurtenance. The Manufactured Home:

- may be treated as Personal Property or Chattel when it retains its vehicle title (or certificate of title); or
- may be treated as realty by the State or locality in which the Property is located, and for which the vehicle title is surrendered and cancelled.

When the Manufactured Home is treated as Personal Property, Lenders may take a security interest in the Manufactured Home as Personal Property and concurrently place a real property lien on the land. FHA permits Manufactured Homes to be split from the land and secured separately.

(F) Manufactured Home and Lot Combination

Manufactured Home and Lot Combination refers to an eligible Manufactured Home and manufactured home lot on which the Manufactured Home is placed.

(G) Manufacturer's Invoice

Manufacturer's Invoice refers to a document issued by a manufacturer and provided with a Manufactured Home to a retail dealer that separately details the wholesale (base) prices at the factory for specific models or series of Manufactured Homes and itemized options (large appliances, built-in items and equipment), plus actual itemized charges for freight from the factory to the Dealer's lot or the home site (including any rental of wheels and axles) and for any sales taxes to be paid by the Dealer. The invoice may recite such prices and charges on an itemized basis or by stating an aggregate price or charge, as appropriate, for each category. The manufacturer shall certify on the invoice, or on a supplement which is attached to and made a part of the invoice, as follows:

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

The undersigned certifies under applicable criminal and civil penalties for fraud and misrepresentation that: (1) The wholesale (base) prices for the manufactured home and itemized options, the charges for freight and dealer-paid sales taxes, and all other statements in this invoice are true and accurate; (2) all such prices reflect the actual dealer costs at the factory, as quoted in the applicable current manufacturer's wholesale (base) price list; (3) except for any payments of volume incentives or special benefits related to this transaction, all such prices and charges exclude any costs of trade association fees or charges, discounts, bonuses, refunds, rebates, prizes, loan discount points or other financing charges, or anything else of more than nominal value which will inure to the benefit of the dealer and/or home purchaser at any date; and (4) the manufacturer has not made and will not make any payments to or for the benefit of the dealer and/or home purchaser that are not disclosed on this invoice or invoice supplement.

ii. Standard

(A) HUD Certification Label

(1) Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

(2) Standard

The HUD tag should be located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable.

The Manufactured Home must comply with standards for livability and durability as specified in HUD Code, formally known as 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.

The manufacturer must certify that a Manufactured Home is constructed in compliance with HUD Code by affixing a red HUD Certification Label to the home. Etched on the certification label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

When the HUD seal is missing or not found, Lenders must obtain label verification from the Institute for Building Technology and Safety (IBTS).

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2	A manufactured home appraisal must reflect the serial number from the HUD Seal. A manufactured home appraisal is required for:
3	• a purchase of an Existing Manufactured Home (older than 18 months from
4	date of manufacture);
5	a non-streamline refinance of a Manufactured Home Loan; or
6	 each Loan for which the Lender files a claim.
7	(B) Data Plate
8	Manufactured Homes have a Data Plate affixed in a permanent manner, typically
9	adjacent to the electric service panel, the utility room or within a cabinet in the
10	kitchen. The Data Plate provides information, such as the manufacturer name, serial
11	number, model and date of manufacture, as well as wind, roof load and thermal zone
12	maps.
13	The Lender, or an agent of the Lender that is not a Dealer, must conduct an <u>inspection</u>
14	of the Manufactured Home after it has been delivered and installed at the home site.
15	iii. Required Documentation
16	(A) Invoice or Appraisal
17	The case binder must contain the invoice showing the date of manufacture, or the
18	home appraisal showing the age of the home.
19	(B) Certification of Compliance with HUD Code
20	For New Manufactured Homes, a certification that the home was constructed in
	compliance with HUD Code must be reflected by a certification on the
21 22 23	Manufacturer's Invoice or invoice supplement, which is signed by the manufacturer's
23	authorized representative.
24	(C) Manufacturer's Warranty
25	On New Manufactured Home purchases, the home manufacturer must furnish the
	Borrower with a one year written warranty. The warranty must be provided at no cost
26 27	to the Borrower.
28	An authorized representative of the manufacturer must execute the warranty on form
29	<u>HUD-55014</u> , Warranty for New Manufactured Home. The warranty must be effective
30	as of the actual date that the Borrower takes possession of the home. A copy of the
31	warranty must be contained in the Borrower's case binder.
32	iv. Options and Accessories
33	Transactions for New and Existing Manufactured Homes may include eligible options
34	and accessories, provided that these options are itemized on the Manufacturer's Invoice,

4.	Manufactured	Homo	Loon	Drogram
4.	Manufactureu	поше	Loan	Program

1 2	purchase contract, and/or a separate bill of sale. Only the actual cost of such items may be considered when calculating the maximum loan amount.			
3	(A) Eligible Options and Accessories			
4	The following items may be considered when calculating the maximum loan amount,			
5	not to exceed actual costs:			
6	• skirting;			
7	• garage, carport, patio or other comparable appurtenance to the home; and			
8 9	 purchase and installation of a central air conditioning system or heat pump (if not already installed by the manufacturer). 			
10	(B) Ineligible Options and Accessories			
11	The following items may not be considered when calculating the maximum loan			
12	amount:			
13	• Furniture and other articles of Personal Property (lamps, rugs, draperies, etc.);			
14	 small appliances that are not part of the Property (toasters, TVs, etc.); and 			
15	 purchase of wheels and axles. 			
16				
17	Furniture refers to movable articles of Personal Property relating to a home or			
18	dwelling, such as beds, chairs, sofas, lamps, tables, rugs, etc.; however, Furniture			
19	does not include:			
20	• items built into the home or dwelling such as wall-to-wall carpeting or heating			
21	or cooling equipment; or			
22	 large appliances such as refrigerators, ovens, ranges, dishwashers, clothes 			
23	washers or clothes dryers.			
24	v. Manufactured Home Site			
25	(A) Standard			
26	The site must comply with standards, ordinances, and regulations, if any, issued by			
27	state or local government and must:			
28	be served by adequate utility connections;			
29	 provide Adequate Vehicular Access from a public right-of-way; 			
30	 have an adequate water supply and adequate sewerage disposal system. The 			
31	site must use public or Community Water Systems and sewerage systems,			
32	unless such systems are unavailable to provide an adequate level of service to			
33	the manufactured home site;			
34	• comply with local or state minimum lot area requirements for water or sewage			
35	systems, if the site is served by such systems; and			
36	 meet the water quality standards set by the <u>U.S. Environmental Protection</u> 			
37	Agency (EPA), as presented in the National Primary Drinking Water			
38	regulations in 40 CFR Parts 141 and 142, if there are no local or state water			
39	quality standards.			

E. Title I Insured Programs

4. Manufactured Home Loan Program

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The Lender must document that the home site complies with the standards outlined above and provides a suitable site for a Manufactured Home.

The Lender must obtain a certification, or other appropriate documentation, from an appropriate state or local government official. The documentation must reflect that water and sewage systems comply with jurisdictional requirements.

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 Dealer, or otherwise have a financial interest in the subject transaction. The written certification must be retained in the case binder.

vi. Site Lease

(A) Standard

For a leased site, the Lender must verify that the lease includes the following provisions:

- the lease term must be for a term of three years or longer;
- the lease term must be renewable upon the expiration of the original term by successive terms of one year or more; and
- the lease 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.

(B) Required Documentation

The lender file must contain a copy of the land lease that reflects provisions listed in the standard above for lease term, renewals, and minimum advance notice to the Borrower for lease termination.

vii. Native American Reservations and Other Restricted Lands

(A) Standard

A Manufactured Home may be placed on an owned or leased site within Native American trust or otherwise restricted lands.

(B) Required Documentation

Title I Insured Programs

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Manufactured Home Loan Program

2	The trustee or the tribal authority that controls the use of the site provides written
3	permission for the Borrower to install a Manufactured Home on the site and written
4	permission for the Lender to repossess the home in the event of Default by the
5	Borrower and acceleration of the Loan.
6	viii. Manufactured Home Installation Requirements
7	(A) Standard
8	(1) New Manufactured Home or Relocated Existing Manufactured Home
9	The installation or erection of a Manufactured Home on the home site must meet
10	or exceed the requirements set forth in 24 CFR Part 3285, Model Manufactured
11	Home Installation Standards, and all applicable state and local requirements
12	governing the installation and construction of the manufactured home foundation
13	system.
14	(2) Existing Manufactured Home – Not Relocated
15	An Existing Manufactured Home that has not been relocated from the home site
16	upon which it was originally erected must have been installed in compliance with
17	the manufacturer's requirements for anchoring, support, stability, and
18	maintenance.
19	(R) Required Documentation

For all Manufactured Home Loans, the Lender must obtain an executed form HUD-56002-MH, Placement Certificate for Manufactured Home, also referred to as the Placement Certificate.

Each Borrower must sign the section entitled Notice to Borrowers. The Dealer and/or retailer must sign the Notice to Dealers whenever the home is purchased through a Dealer/retailer.

The *Placement Certificate* must be retained in the case binder.

ix. Appraisals

When an appraisal is required, the Lender must engage a Chattel Appraiser who is not engaged in the business of manufactured home retail sales.

(A) Appraisal Requirement for Manufactured Home Lot

The Lender must obtain an appraisal for the financing of a manufactured home lot by itself, or in combination with a manufactured home chattel unit.

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	Exception
2	An appraisal is not required for lots that are leased, and not secured by a lien.
3	(B) Appraisal Requirements for Manufactured Home
4	Appraisals are required on the secured Property, for the following transactions or
5	events:
6 7	 purchase of an Existing Manufactured Home (older than 18 months from date of manufacture);
8 9	 refinance of an existing Title I Manufactured Home Loan with an advance to purchase a lot;
10	• Simple Conventional to Title I Refinance;
11	 Conventional to Title I Refinance with an advance of funds; or
12	• Short Sales and claims.
13	When the Manufactured Home is classified as Real Property, Lenders must use an FHA
14	Roster Appraiser who can certify to prior experience appraising Manufactured Homes as
15	Real Property.
16	(C) Appraisal Requirements for Manufactured Home and Lot Combination
17	Appraisals are required on the secured Property, for the following transactions or
18	events:
19	• purchase of an Existing Manufactured Home (older than 18 months from date
20 21	of manufacture);
22	 refinance of an existing Title I Manufactured Home Loan with an advance to purchase a lot;
23	 Simple Conventional to Title I Refinance;
24	Conventional to Title I Refinance with an advance of funds; or
25	Short Sales and claims.
26	When the Manufactured Home and lot are classified as Real Property, Lenders must
27	use an FHA Roster Appraiser who can certify to prior experience appraising
28	Manufactured Homes as Real Property.
29	Appraisals are <i>not</i> required for the following transaction types:
30	Title I purchase of a New Manufactured Home;
31	Streamline Title I Refinance transactions;
32	• Simple Title I Refinance;
33	Title I Refinance with advance of funds to purchase a New Manufactured
34	Home; or
35	 lots that are leased, and not secured by a lien.

1	(D) Lender Requirements
2	(1) Prior to Commencement of the Appraisal
3 4 5	The Lender must determine that the Appraiser is competent to provide an appraisal for the interest(s) to be appraised and has access to appropriate third-party data sources in order to render a credible opinion of value for the Property.
6 7 8 9	Lenders may obtain separate appraisals on a Manufactured Home classified as Chattel (or Personal Property), and the borrower-owned land lot on which the home is set, and may use different Appraisers for the different interests if necessary.
10	(2) Information Provided to the Appraiser
11 12 13	The Lender must provide the Appraiser with a complete copy of the executed contract for sale of the Manufactured Home and land, or, if the Manufactured Home and land are being purchased separately, the executed contract for each.
14 15	The Lender must also provide the Appraiser with a copy of the manufactured home invoice when one exists.
16 17	(3) Valuation Development – Borrower-Owned Land and Manufactured Home – Real Estate
18 19 20 21 22 23 24	When the secured Property consists of a borrower-owned lot and a Manufactured Home that are, in combination, treated as real estate by the local government, the Lender must obtain a single appraisal from an FHA Roster Appraiser, use Fannie_Mae_Form_1004C/Freddie_Mac_Form_70B , Manufactured Home Appraisal Report, and follow the guidance noted in the Appraiser and Property_Requirements for Title II Forward and Reverse Mortgages section of the SF Handbook.
25	(4) Lender Review of Appraisal
26 27 28	The Lender must review the appraisal and other documentation provided by the Appraiser for errors. If the Lender discovers any errors on the appraisal, the report must be returned to the Appraiser for correction.
29 30 31	For an appraisal that was prepared using the National Appraisal System (NAS), the Lender must verify that the Appraisal reflects the correct Property and features.
32 33 34	The Lender must ensure that the Appraiser used the NAS-generated forms, did not omit figures or features that would increase the value, and that the information is legible.

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d. Underwriting the Borrower

- The Lender must evaluate the Borrower's ability and willingness to repay a Loan for the
- 3 purchase or refinance of a Title I Manufactured Home Loan product. The Lender must
- 4 exercise prudent underwriting practices when evaluating the creditworthiness of the
- 5 Borrower and the value of the Property being offered as collateral, in order to limit the risk of
- 6 Default.

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- 7 Title I Loans are not eligible for automated underwriting through the Technology Open To
- 8 Approved Lenders (TOTAL) Scorecard.
- 9 Once it is determined that the Borrower and the Property are eligible, analysis of the
- Borrower's credit must be performed for final loan approval, including review and
- documentation of the following:
 - downpayment and other required funds
 - credit history
 - employment history
- 15 income
- 16 assets
 - liabilities
- debt ratios
- compensating factors
- If the Loan involves a HUD employee, the Lender must underwrite the transaction in
- accordance with the guidance in this section. The Lender must submit the underwritten loan
- application package to the Director of the Financial Operations Center (FOC) for final
- 23 underwriting approval.

i. Credit Requirements

(A) General Credit Requirements

- FHA's general credit policy requires Lenders to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.
- The Lender must obtain a merged credit report from an independent consumer reporting agency.
- The Lender must obtain a credit report for each Borrower who will be obligated on the loan Note. The Lender may obtain a joint report for individuals with joint
- 32 accounts.
- Before making a determination on the creditworthiness of an applicant, a Lender must
- 34 conduct an interview to resolve any material discrepancies between the information
- on the loan application and information on the credit report to determine accurate and
- 36 complete information.

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1 2	The Lender is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions .
3	(B) Types of Credit History
4	(1) Traditional Credit
5 6 7	Lenders must pull a credit report that draws and merges information from at least three national credit bureaus. Lenders are prohibited from developing Non-Traditional Credit Reports (NTCR) to use in place of a traditional credit report.
8 9	If the credit report generates a credit score, the Lender must utilize traditional credit history.
10	(a) Requirements for the Credit Report
11 12 13 14 15	Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Lender must retain copies of all credit reports.
16 17 18 19 20 21 22	 The credit report must include: the name of the Lender ordering the report; the name, address, and telephone number of the consumer reporting agency; the name and SSN of each Borrower; and the primary repository from which any particular information was pulled, for each account listed.
23 24	A truncated SSN is acceptable for FHA loan insurance purposes provided that the loan application captures the full nine-digit SSN.
25 26 27 28 29 30 31 32 33 34 35	The credit report must also include: • all inquiries made within the last 90 Days; • all credit and legal information not considered obsolete under the FCRA, including information for the last seven years regarding: • bankruptcies; • Judgments; • lawsuits; • foreclosures; and • tax liens; and • for each Borrower debt listed: • the date the account was opened;
36 37	high credit amount;required monthly payment amount;

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1 2	o unpaid balance; ando payment history.
3	(b) Updated Credit Report or Supplement to the Credit Report
4 5 6	The Lender must obtain an updated credit report or supplement if the underwriter identifies material inconsistencies between any information in the case binder and the original credit report.
7	(2) Non-Traditional Credit
8 9 10	For Borrowers without a credit score, the Lender must either obtain an NTCR from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below.
11	(a) Non-Traditional Credit Report
12	(i) Definition
13 14 15 16 17 18	 An NTCR is designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report and used either as: a substitute for a traditional credit report; or a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.
19	(ii) Standard
20 21 22 23 24	Lenders may use an NTCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references: • the existence of the credit providers; • that the credit was actually extended to the Borrower; and • the creditor has a published address or telephone number.
25 26 27 28	The NTCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the: • creditor's name;
29 30 31 32	 date of opening; high credit; current status of the account; required monthly payment;
33 34 35	 unpaid balance; and payment history in the delinquency categories (for example, 0x30 and 0x60).

1	(b) Independent Verification of Non-Traditional Credit Providers
2 3 4	The Lender may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.
5 6 7	To verify the existence of each credit provider, the Lender must review public records from the State, county, or city or other documents providing a similar level of objective information.
8 9 10 11 12 13	 To verify credit information, the Lender must: use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
14 15 16 17 18	To verify the Borrower's rental payment history, the Lender must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment for the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.
19	(c) Sufficiency of Non-Traditional Credit References
20 21 22 23 24 25 26 27 28 29 30 31 32	To be sufficient to establish the Borrower's credit, the non-traditional credit history must include three credit references, including at least one of the following: • rental housing payments (subject to independent verification if the Borrower is a renter); • telephone service; or • utility company reference (if not included in the rental housing payment), including: o gas; o electricity; o water; o television service; or o Internet service.
33 34 35 36 37 38 39	 If the Lender cannot obtain all three credit references from the list above, the Lender may use the following sources of unreported recurring debt: insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance); payment to child care providers made to businesses that provide such services; school tuition;

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1	• retail store credit cards (e.g., from department, Furniture, or appliance
2	stores, or specialty stores);
3	• rent-to-own (e.g., Furniture, appliances);
4	 payment of that part of medical bills not covered by insurance;
5	 a documented 12-month history of savings evidenced by regular
6	deposits resulting in an increased balance to the account that:
7	o were made at least quarterly;
8	o were not payroll deducted; and
9	o caused no Insufficient Funds (NSF) checks;
10	 an automobile lease;
11 12	 a personal loan from an individual with repayment terms in writing
	and supported by cancelled checks to document the payments; or
13 14	 a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.
15	(3) Minimum Decision Credit Score
16	(a) Definition
17	The Minimum Decision Credit Score (MDCS) refers to the credit score
18	reported on the Borrower's credit report when all reported scores are the
19	same. Where three differing scores are reported, the middle score is the
20	MDCS. Where two differing scores are reported, the MDCS is the lowest
21	score. Where only one score is reported, that score is the MDCS.
22	An MDCS is determined for each Borrower.
20	
23	(b) Standard
24	The Lender must determine the MDCS.
25	An MDCS has not been established for Title I Manufactured Home Loans tha
26	would replace the credit underwriting requirements for this program.
27	The credit score will only affect the amount of downpayment required.
28	(c) Required Documentation/Data Entry
29	When credit scores are available, the Lender must report all scores in FHAC
30	for each Borrower.

1	(C) Evaluating Credit History
2	(1) General Credit
3 4 5	The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.
6	The Lender must not consider the credit history of a Non-Borrowing Spouse.
7	(2) Types of Payment Histories
8 9 10	The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.
11	(a) Satisfactory Credit
12 13 14 15	The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Loan Payments or installment payments in the previous 24 months.
16 17 18	The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.
19 20 21 22	Major derogatory credit excludes medical collections. On revolving accounts, major derogatory credit must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.
23	(b) Payment History Requiring Additional Analysis
24 25	If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.
26 27 28 29 30	The Lender must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Lender must document this analysis in the case binder. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.
31 32 33	The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

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1	(3) Payment History on Housing Obligations
2 3 4 5 6 7 8	 The Lender must determine the Borrower's housing obligation payment history through: the credit report; verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower); verification of Loan Payments received directly from the loan Servicer; or a review of canceled checks that cover the most recent 12-month period.
9 10 11 12 13	The Lender must verify and document the previous 12 months of housing history. For Borrowers who indicate they are living rent-free, the Lender must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent-free.
14 15 16	A Loan that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.
17	(4) Collection Accounts
18	(a) Definition
19 20	A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.
21	(b) Standard
22 23 24 25	 The Lender must determine if collection accounts were a result of: the Borrower's disregard for financial obligations; the Borrower's inability to manage debt; or extenuating circumstances.
26	(c) Required Documentation
27 28	The Lender must document reasons for approving a Loan when the Borrower has any collection accounts.
29 30 31 32	The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

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I	(5) Charge Off Accounts
2	(a) Definition
3 4	Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.
5	(b) Standard
6 7 8 9	 The Lender must determine if Charge Off Accounts were a result of: the Borrower's disregard for financial obligations; the Borrower's inability to manage debt; or extenuating circumstances.
10	(c) Required Documentation
11 12	The Lender must document reasons for approving a Loan when the Borrower has any Charge Off Accounts.
13	The Borrower must provide a letter of explanation, which is supported by
14	documentation, for each outstanding Charge Off Account. The explanation
15 16	and supporting documentation must be consistent with other credit information in the file.
17	(6) Disputed Derogatory Credit Accounts
18	(a) Definition
19	Disputed Derogatory Credit Account refers to disputed Charge Off Accounts,
20	disputed collection accounts, and disputed accounts with late payments in the
21	last 24 months.
22	(b) Standard
23	The Lender must analyze the documentation provided for consistency with
24	other credit information to determine if the derogatory credit account should
25	be considered in the underwriting analysis.
26	The following items may be excluded from consideration in the underwriting
27	analysis:
28	disputed medical accounts; and
29 30	 disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the Lender includes a copy of the
31	police report or other documentation from the creditor to support the
32	status of the account in the case binder.

1	(c) Required Documentation
2 3 4	If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.
5 6 7 8	If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Lender must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.
9	(7) Judgments
10	(a) Definition
11 12 13	Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.
14	(b) Standard
15 16	The Lender must verify that court-ordered Judgments are resolved or paid off prior to or at closing.
17 18 19	Judgments of a Non-Borrowing Spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.
20 21 22 23 24	Regardless of the amount of outstanding Judgments, the Lender must determine if the Judgment was a result of: • the Borrower's disregard for financial obligations; • the Borrower's inability to manage debt; or • extenuating circumstances.
25	Exception
26 27 28 29 30 31	A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured Loan lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
32 33	The Lender must include the payment amount in the agreement in the calculation of the Borrower's DTI ratio.

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1 2	The Lender must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.
3	(c) Required Documentation
4 5 6 7 8 9	 The Lender must provide the following documentation: evidence of payment in full, if paid prior to settlement; the payoff statement, if paid at settlement; or the payment arrangement with the creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.
10	(8) Bankruptcy
11	(a) Standard: Chapter 7
12 13 14 15 16 17	A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Loan if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time, the Borrower must have: • re-established good credit; or • chosen not to incur new credit obligations.
18 19 20 21 22 23	 An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the Borrower: can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and has since exhibited a documented ability to manage their financial affairs in a responsible manner.
24	(b) Standard: Chapter 13
25 26 27	A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured Loan, if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.
28 29 30 31	The Lender must determine that during this time, the Borrower's payment performance has been satisfactory and all required payments have been made on time, and the Borrower has received written permission from bankruptcy court to enter into the loan transaction.
32	(c) Required Documentation
33 34 35 36	If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Lender must obtain the bankruptcy and discharge documents.

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The Lender must also document that the Borrower's current situation indicates 1 2 that the events which led to the bankruptcy are not likely to recur. 3 (9) Foreclosure and Deed-in-Lieu of Foreclosure 4 (a) Standard 5 A Borrower is generally not eligible for a new FHA-insured Loan if the Borrower had a foreclosure or a Deed-in-Lieu (DIL) of Foreclosure in the 6 7 three-year period prior to the date of case number assignment. 8 This three-year period begins on the date of the DIL or the date that the 9 Borrower transferred ownership of the Property to the foreclosing 10 Entity/designee. 11 **Exception** The Lender may grant an exception to the three-year requirement if the 12 foreclosure was the result of documented extenuating circumstances that were 13 14 beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the 15 foreclosure. 16 17 Divorce is not considered an extenuating circumstance. An exception may, 18 however, be granted where a Borrower's Mortgage was current at the time of 19 the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed. 20 The inability to sell the Property due to a job transfer or relocation to another 21 22 area does not qualify as an extenuating circumstance. 23 (b) Required Documentation 24 If the credit report does not indicate the date of the foreclosure or DIL of Foreclosure, the Lender must obtain the Settlement Statement, deed or other 25 26 legal documents evidencing the date of property transfer. 27 If the foreclosure or DIL of Foreclosure was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the 28 29 circumstance and document that the circumstance was beyond the Borrower's 30 control.

1	(10) Pre-Foreclosure Sales (Short Sales)
2	(a) Definition
3	Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real
4	estate that generate proceeds that are less than the amount owed on the
5	Property and the lien holders agree to release their liens and forgive the
6	deficiency balance on the real estate.
7	(b) Standard
8	A Borrower is generally not eligible for a new FHA-insured Loan if they
9	relinquished a Property through a Short Sale within three years from the date
10	of case number assignment.
11	This three-year period begins on the date of transfer of title by Short Sale.
12	(i) Exception for Borrower Current at the Time of Short Sale
13	A Borrower is considered eligible for a new FHA-insured Loan if, from
14	the date of case number assignment for the new Loan:
15	 all Mortgage Payments on the prior Mortgage were made within
16	the month due for the 12-month period preceding the Short Sale;
17	and
18	 installment debt payments for the same time period were also made
19	within the month due.
20	(ii) Exception for Extenuating Circumstances
21	The Lender may grant an exception to the three-year requirement if the
22	Short Sale was the result of documented extenuating circumstances that
23	were beyond the control of the Borrower, such as a serious illness or death
24	of a wage earner, and the Borrower has re-established good credit since
25	the Short Sale.
26	Divorce is not considered an extenuating circumstance. An exception may
27	however, be granted where a Borrower's Mortgage was current at the time
28	the Borrower's divorce, the ex-spouse received the Property, and there
29	was a subsequent Short Sale.
30	The inability to sell the Property due to a job transfer or relocation to
31	another area does not qualify as an extenuating circumstance.

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1	(c) Required Documentation
2 3 4	If the credit report does not indicate the date of the Short Sale, the Lender must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.
5 6 7	If the Short Sale was the result of a circumstance beyond the Borrower's control, the Lender must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control.
8	(11) Credit Counseling/Payment Plan
9 10 11 12 13 14 15 16	Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Loan, provided the Lender documents that: • one year of the pay-out period has elapsed under the plan; • the Borrower's payment performance has been satisfactory and all required payments have been made on time; and • the Borrower has received written permission from the counseling agency to enter into the loan transaction.
17	(D) Evaluating Liabilities and Debt
18	(1) General Liabilities and Debt
19	(a) Standard
20 21 22	The Lender must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, form <u>HUD-56001-MH</u> , Credit Application for Manufactured (Mobile) Home, and required documentation.
23 24 25 26 27	All applicable monthly liabilities must be included in the qualifying ratio. Closed- end debts do not have to be included if they will be paid off within six months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the six-month requirement.
28 29 30 31	Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Lender can document that the primary account holder has been making regular payments on the account for the previous 12 months.
32 33 34	Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

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1 2 3 4	through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.
5	(b) Required Documentation
6 7 8	The Lender must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.
9	(2) Undisclosed Debt and Inquiries
10	(a) Standard
11 12 13 14 15 16 17 18 19 20 21	 When a debt or obligation is revealed during the application process or the interview with the Borrower that was not listed on the loan application and/or credit report, the Lender must: verify the actual monthly payment amount; include the monthly payment amount in the Borrower's DTI; ensure that the Borrower did not incur the indebtedness in connection with the FHA-insured transaction; and determine that any unsecured funds borrowed will not be used for the Borrower's MCI. The Lender must obtain a written explanation from the Borrower for all material inquiries shown on the gradit report that were made in the last 90.
21 22	material inquiries shown on the credit report that were made in the last 90 Days.
23 24 25 26	Material Inquiries refer to inquires which may potentially result in obligations incurred by the Borrowers for other Mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.
27	(b) Required Documentation
28 29	The Lender must document all undisclosed debt and support for its analysis of the Borrower's debt.
30	(3) Federal Debt
31	(a) Definition
32 33	Federal Debt refers to debt owed to the federal government for which regular payments are being made.

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1	(b) Standard
2 3	The Lender must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total DTI.
4	(c) Required Documentation
5 6	The Lender must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.
7 (4)	Alimony, Child Support, and Other Maintenance
8	(a) Definition
9 10	Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.
11	(b) Standard
12 13 14 15	For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Lender's calculation of the Borrower's gross income, the Lender must verify and include the monthly obligation in its calculation of the Borrower's debt.
16 17 18	Child support and other maintenance are to be treated as a recurring liability and the Lender must include the monthly obligation in the Borrower's liabilities and debt.
19	(c) Required Documentation
20 21	The Lender must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.
22 23 24	The Lender must also obtain the Borrower's pay stubs covering no less than 28 Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.
25	(d) Calculation of Monthly Obligation
26 27 28 29 30	 The Lender must calculate the Borrower's monthly obligation from the greater of: the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or the monthly amount of the garnishment.

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1	(5) Deferred Obligations
2	(a) Definition
3 4 5	Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.
6	(b) Standard
7 8	The Lender must verify and include deferred obligations in the calculation of the Borrower's debt.
9	(c) Required Documentation
10 11 12 13	The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Lender must obtain evidence of the anticipated monthly payment obligation, if available.
14	(d) Calculation of Monthly Obligation
15 16	The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.
17 18 19	If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
20	(6) Student Loans
21	(a) Definition
22	Student Loan refers to liabilities incurred for educational purposes.
23	(b) Standard
24 25	The Lender must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.
26	(c) Required Documentation
27	If the payment used for the monthly obligation is:
28 29 30 31	 less than 1 percent of the outstanding balance reported on the Borrower's credit report, and less than the monthly payment reported on the Borrower's credit report;

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1 2 3	the Lender must obtain written documentation of the actual monthly payment the payment status, and evidence of the outstanding balance and terms from the creditor.
4	(d) Calculation of Monthly Obligation
5 6 7 8 9 10 11 12	Regardless of the payment status, the Lender must use either: • the greater of: • 1 percent of the outstanding balance on the loan; or • the monthly payment reported on the Borrower's credit report; or • the actual documented payment, provided the payment will fully amortize the loan over its term. (7) Installment Loans
13	(a) Definition
14 15 16 17	Installment Loans (excluding Student Loans) refer to Loans, not secured by real estate, that require the periodic payment of Principal and Interest (P&I). A Loan secured by an interest in a timeshare must be considered an Installment Loan.
18	(b) Standard
19 20	The Lender must include the monthly payment shown on the credit report to calculate the Borrower's debts.
21 22 23 24	If the credit report does not include a monthly payment for the Loan, the Lender must use the amount of the monthly payment shown in the loan agreement or payment statement to calculate the monthly payment to be included in the Borrower's debt.
25	(c) Required Documentation
26 27 28	The Lender must verify and document the terms of any outstanding Installment Loan. The Lender must use the credit report to document the terms of the Installment Loan.
29 30 31	For Loans not reported on the credit report, the Lender must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

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1	(8) Revolving Charge Accounts
2	(a) Definition
3 4 5	Revolving Charge Accounts refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.
6	(b) Standard
7 8	The Lender must verify and include payments on Revolving Charge Accounts in the Borrower's debts.
9	(c) Required Documentation
10 11	The Lender must use the credit report to document the terms, balance and payment amount on the account, if available.
12 13 14 15	Where the credit report does not reflect the necessary information on the charge account, the Lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.
16	(d) Calculation of Monthly Obligation
17 18 19 20	The Lender must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the Lender must use 5 percent of the outstanding balance shown on the current account statement.
21	(9) 30-Day Accounts
22	(a) Definition
23 24	30-Day Accounts refer to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.
25	(b) Standard
26 27 28 29 30 31	The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's debt ratio. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the debt ratio.

1	(c) Required Documentation
2 3 4	The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Lender must use the credit report to document the balance, and must document
5	sufficient funds are available to pay off the balance after loan closing.
6	(10) Business Debt in Borrower's Name
7	(a) Definition
8	Business debt in the Borrower's name refers to liabilities reported on the
9 10	Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.
11	(b) Standard
12	When business debt is reported on the Borrower's personal credit report, the
13 14	debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business.
15	(c) Required Documentation
16	When a self-employed Borrower states debt appearing on their personal credit
17 18	report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds, and the debt was considered in the
19	cash-flow analysis of the Borrower's business.
20	(11) Non-Derogatory Disputed Accounts and Disputed Accounts Not
21	Indicated on the Credit Report
22	(a) Definition
23	Non-Derogatory Disputed Accounts include the following types of accounts:
24	disputed accounts with zero balance;
25	• disputed accounts with late payments aged 24 months or greater; or
26	 disputed accounts that are current and paid as agreed.
27	(b) Standard
28	If a Borrower is disputing non-derogatory accounts, or is disputing accounts
29	which are not indicated on the credit report as being disputed, the Lender mus
30	analyze the effect of the disputed accounts on the Borrower's ability to repay
31 32	the Loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on
33	the credit report, the Borrower must provide documentation of the lower
34	payments.
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1	(12) Contingent Liabilities
2	(a) Definition
3 4 5 6 7 8	A Contingent Liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment. Contingent liabilities may include cosigner liabilities and liabilities resulting from a loan assumption without release of liability.
9	(b) Standard
10 11 12 13 14	The Lender must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Lender verifies that there is no possibility that the debt holder will pursue debt collection against the Borrower, should the other party default, or the other party has made 12 months of timely payments.
15	(c) Required Documentation
16	(i) Loan Assumptions
17 18 19	The Lender must obtain the agreement creating the contingent liability or assumption agreement, and the deed showing transfer of title out of the Borrower's name.
20	(ii) Cosigned Liabilities
21 22 23 24	The Lender does not need to include cosigned liabilities if the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of Delinquent payments on the Loan.
25	(iii)Court Ordered Divorce Decree
26 27	The Lender must obtain a copy of the divorce decree ordering the spouse to make payments.
28	(d) Calculation of Monthly Obligation
29 30	The Lender must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

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1	(13) Collection Accounts
2	(a) Definition
3 4	A Collection Account is a Borrower's Loan or debt that has been submitted to a collection agency through a creditor.
5	(b) Standard
6 7 8 9 10 11 12 13	 If the credit reports used in the analysis show any outstanding collection accounts, the Lender must: verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds; or verify that the Borrower has made payment arrangements with the creditor and has successfully made at least one payment under that arrangement. If the monthly payment is unknown, the Lender must use 5 percent of the outstanding balance.
14 15 16 17	Medical collections may be excluded from the pay-off or payment requirement above if the Borrower meets the satisfactory credit history requirements for satisfactory credit for TRMCR, NTCR and combination references.
18 19 20 21	Accounts are designated as medical when clearly shown on the credit report as related to a medical service provider (e.g., Dr., MD, Hospital) or when the Borrower can provide documentation that the collection is related to a medical expense.
22	(c) Required Documentation
23 24 25 26	The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.
27 28 29 30 31	 The Lender must provide the following documentation: evidence of payment in full, if paid prior to settlement; the payoff statement, if paid at settlement; or the payment arrangement with the creditor, if not paid prior to or at settlement.
32	(14) Private Savings Clubs
33	(a) Definition
34 35	Private Savings Clubs refer to non-traditional methods of saving by making deposits into a member-managed resource pool.

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1	(b) Standard
2 3 4	If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.
5	(c) Required Documentation
6 7 8	The Lender must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.
9 10	The Lender must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.
11	(15) Obligations Not Considered Debt
12 13 14 15 16 17 18 19 20 21 22 23 24	Obligations not considered debt include: • medical collections; • federal, state, and local taxes, if not delinquent and no payments required; • automatic deductions from savings, when not associated with another type of obligation; • Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts; • a collateralized loan that secures cash, stock, or bond assets; • utilities; • child care; • commuting costs; • union dues; • insurance, other than property insurance;
2526	 open accounts with zero balances; and voluntary deductions, when not associated with another type of obligation
27	ii. Income Requirements
28	(A) Definition of Effective Income
29	Effective Income refers to income that may be used to qualify a Borrower for a Loan.
30 31 32	Effective Income must be stable, have been received for the previous two years, be reasonably likely to continue through at least the first three years of the Loan, and meet the specific requirements described below.

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1	(B) General Income Requirements
2 3 4 5	The Lender must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.
6 7	The Lender may only consider income if it is legally derived <i>and</i> , when required, properly reported as income on the Borrower's tax returns.
8 9	Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.
10	(C) Employment Related Income
11	(1) Definition
12 13	Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.
14	(2) Standard
15 16 17	The Lender may use employment related income as Effective Income in accordance with the standards provided for each type of employment related income.
18	(3) Required Documentation
19 20 21	For all employment related income, the Lender must verify the Borrower's most recent two years of employment and income, and document it using one of the following methods.
22	(a) Traditional Current Employment Documentation
23 24 25 26 27 28	The Lender must obtain the most recent pay stubs covering a minimum of 30 Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 Days) that show the Borrower's year-to-date earnings, <i>and</i> one of the following to verify current employment: a written Verification of Employment (VOE) covering two years; or an electronic verification acceptable to FHA.
29 30	Re-verification of employment must be completed within 10 Days prior to loan Disbursement. Verbal re-verification of employment is acceptable.
31	(b) Alternative Current Employment Documentation
32	If using alternative documentation, the Lender must:

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1 2 3	• obtain copies of the pay stub(s) covering the most recent 30-Day period (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 Days);
4 5	 obtain copies of the original IRS Form W-2 from the previous two years; and
6 7 8	 document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.
9 10	Re-verification of employment must be completed within 10 Days prior to loan Disbursement. Verbal re-verification of employment is acceptable.
11	(c) Past Employment Documentation
12 13 14	Direct verification of the Borrower's employment history for the previous two years is not required if <i>all</i> of the following conditions are met: • the current employer confirms a two year employment history, or a payetyly reflects a hiring data:
15 16	 paystub reflects a hiring date; only base pay is used to qualify (no overtime or bonuses); and
17 18 19	• the Borrower executes <u>IRS Form 4506</u> , Request for Copy of Tax Return, or <u>IRS Form 8821</u> , Tax Information Authorization, for the previous two tax years.
20 21 22 23	If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Lender must obtain one or a combination of the following for the
23 24	most recent two years to verify the applicant's employment history: • W-2(s);
25	verbal or written VOE(s);
26	electronic verification acceptable to FHA; or
27 28	 evidence supporting enrollment in school or the military during the most recent two full years.
29	(D) Primary Employment
30	(1) Definition
31 32 33	Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.
34	(2) Standard
35	The Lender may use primary income as Effective Income.

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1	(3) Calculation of Effective Income
2	(a) Salary
3 4 5	For employees who are salaried and whose income has been and will likely be consistently earned, the Lender must use the current salary to calculate Effective Income.
6	(b) Hourly
7 8 9	For employees who are paid hourly, and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.
10 11 12 13	For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.
14	(E) Part-Time/Secondary Employment
15	(1) Definition
16 17	Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.
18	(2) Standard
19 20 21	The Lender may use part-time income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.
22	(3) Calculation of Effective Income
23 24 25	The Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use a 12-month average of hours at the current pay rate.
26	(F) Overtime and Bonus Income
27	(1) Definition
28 29	Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

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1	(2) Standard
2 3 4	The Lender may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.
5 6 7 8	Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the Lender documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
9	(3) Calculation of Effective Income
10 11 12 13 14	For employees with Overtime and Bonus Income, the Lender must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the Lender must use the current year's income.
15	(G)Seasonal Employment
16	(1) Definition
17 18	Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.
19	(2) Standard
20 21 22 23 24	The Lender may consider Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The Lender may consider unemployment income as Effective Income for those with effective seasonal employment income.
25	(3) Calculation of Effective Income
26 27 28 29 30	For employees with seasonal income, the Lender must average the income earned over the previous two full years to calculate Effective Income. For seasonal employees with unemployment income, the Lender must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.
31	(H)Employer Housing Subsidy
32	(1) Definition
33	Employer Housing Subsidy refers to employer-provided loan assistance.

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1	(2) Standard
2	The Loan may utilize the Employer Housing Subsidy as Effective Income.
3	(3) Required Documentation
4 5	The Lender must verify and document the existence and the amount of the housing subsidy.
6	(4) Calculation of Effective Income
7 8 9	For employees receiving an Employer Housing Subsidy, the Lender may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Loan Payment.
10	(I) Employed by Family-Owned Business
11	(1) Definition
12 13	Family-Owned Business Income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.
14	(2) Standard
15 16	The Lender may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.
17	(3) Required Documentation
18 19 20	The Lender must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.
21 22 23	Official business documents include corporate resolutions or other business organizational documents, business tax returns or <u>Schedule K-1 (IRS Form 1065)</u> , or an official letter from a certified public accountant on their business letterhead.
24 25	In addition to traditional or alternative documentation requirements, the Lender must obtain copies of signed personal tax returns or tax transcripts.
26	(4) Calculation of Effective Income
27	(a) Salary
28 29 30	For employees who are salaried and whose income has been and will likely continue to be consistently earned, the Lender must use the current salary to calculate Effective Income.

1	(b) Hourly
2 3 4	For employees who are paid hourly, and whose hours do not vary, the Lender must consider the Borrower's current hourly rate to calculate Effective Income.
5 6 7 8	For employees who are paid hourly and whose hours vary, the Lender must average the income over the previous two years. If the Lender can document an increase in pay rate the Lender may use the most recent 12-month average of hours at the current pay rate.
9	(J) Commission Income
10	(1) Definition
11 12	Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.
13	(2) Standard
14 15 16	The Lender may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.
17	(3) Required Documentation
18 19 20 21 22	For Commission Income, the Lender must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, the Lender may obtain a signed <u>IRS Form 4506</u> , <i>Request for Copy of Tax Return</i> , <u>IRS Form 4506-T</u> , <i>Request for Transcript of Tax Return</i> , or <u>IRS Form 8821</u> , <i>Tax Information Authorization</i> , and tax transcripts directly from the IRS.
23	(4) Calculation of Effective Income
24 25 26 27 28 29	The Lender must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The Lender must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.
30	(K)Self-Employment Income
31	(1) Definition
32 33	Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

- **E.** Title I Insured Programs
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1 2 3	There are four basic types of business structures. They include: sole proprietorships;corporations;
4 5	limited liability or "S" corporations; andpartnerships.
6	(2) Standard
7	(a) Minimum Length of Self-Employment
8 9	The Lender may consider self-employed borrower income if the Borrower has been self-employed for at least two years.
10 11 12 13	If the Borrower has been self-employed between one and two years, the Lender may <i>only</i> consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.
14	(b) Stability of Self-Employment Income
15 16 17 18	Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Lender must document that the business income is now stable.
19 20 21 22 23	A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies for the Loan utilizing the reduced income.
24	(3) Required Documentation
25	(a) Individual and Business Tax Returns
26 27	The Lender must obtain complete individual and business federal income tax returns for the most recent two years, including all schedules.
28 29 30 31	In lieu of signed individual or business tax returns from the Borrower, the Lender may obtain a signed <u>IRS Form 4506</u> , <i>Request for Copy of Tax Return</i> , <u>IRS Form 4506-T</u> , <i>Request for Transcript of Tax Return</i> , or <u>IRS Form 8821</u> , <i>Tax Information Authorization</i> , and tax transcripts directly from the IRS.
32	(b) Profit and Loss Statements and Balance Sheets
33 34	The Lender must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the

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1 2 3	most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.
4 5 6	If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.
7	(c) Business Credit Reports
8 9	The Lender must obtain a business credit report for all corporations and "S" corporations.
10	(4) Calculation of Effective Income
11 12 13	The Lender must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms .
14 15 16 17 18	 The Lender must calculate gross Self-Employment Income by using the lesser of: the average gross Self-Employment Income earned over the previous two years; or the average gross Self-Employment Income earned over the previous one year.
19	(L) Additional Required Analysis of Stability of Employment Income
20	(1) Frequent Changes in Employment
21 22 23 24 25 26 27 28	If the Borrower has frequently changed jobs more than three times in the prior 12-month period, or has changed lines of work, the Lender must take additional steps to verify and document the stability of the Borrower's Employment Income. The Lender must obtain: • transcripts of training and education demonstrating qualification for a new position; or • employment documentation evidencing continual increases in income and/or benefits.
29	(2) Addressing Gaps in Employment
30 31 32 33 34	For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if they can verify and document that: • the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
35 36	 the Borrower has a two-year work history prior to the absence from employment using standard or alternative employment verification.

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1	(3) Addressing Temporary Reduction in Income
2	(a) Standard
3 4 5 6 7 8 9	For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that: • the Borrower intends to return to work; • the Borrower has the right to return to work; and • the Borrower qualifies for the Loan, taking into account any reduction of income due to the circumstance.
10 11	For Borrowers returning to work before or at the time of the first Loan Payment due date, the Lender may use the Borrower's pre-leave income.
12 13 14 15 16 17 18	For Borrowers returning to work after the first Loan Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement, up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.
19	(b) Required Documentation
20 21 22 23 24 25 26 27 28 29	 The Lender must provide the following documentation for Borrowers on temporary leave: a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return; documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through the intended date of return to work with the current employer.
30	(M) Other Sources of Effective Income
31	(1) Disability Benefits
32	(a) Definition
33 34 35	Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

1	(b) Required Documentation
2 3 4	The Lender must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Lender must obtain:
5 6 7	 a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the Borrower's eligibility for disability benefits; or
8 9	 equivalent documentation that establishes the award of benefits to the Borrower.
10 11 12	If any disability income is due to expire within three years from the date of loan application, the Lender should treat that income as a <u>Temporary Reduction in Income</u> .
13	If the Notice of Award or equivalent document does not have a defined
14	expiration date, the Lender may consider the income effective and reasonably
15	likely to continue. The Lender may not rely upon a pending or current re-
16	evaluation of medical eligibility for benefit payments as evidence that the
17	benefit payment is not reasonably likely to continue.
18	Under no circumstance may the Lender inquire into or request documentation
19	concerning the nature of the disability or the medical condition of the
20	Borrower.
21	(i) Social Security Disability
22	For Social Security disability income, including Supplemental Security
23	Income (SSI), the Lender must obtain one of the following documents:
24	 federal tax returns;
25	 the most recent bank statement evidencing receipt of income from
26	the SSA;
27	a Proof of Income Letter, also known as a "Budget Letter" or "Budget Letter" or
28	"Benefits Letter" that evidences income from the SSA; or
29	• a copy of the Borrower's form <u>SSA-1099/1042S</u> , <i>Social Security</i>
30	Benefit Statement.
31	(ii) VA Disability
32	For VA disability benefits, the Lender must obtain from the Borrower a
33	copy of the veteran's last Benefits Letter showing the amount of the
34	assistance, and one of the following documents:
35	• federal tax returns; or
36	• the most recent bank statement evidencing receipt of income from
37	the VA.

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2 3	may consider the income effective and reasonably likely to continue for at least three years.
4	(iii)Private Disability
5 6 7	For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.
8	(c) Calculation of Effective Income
9 10	The Lender must use the most recent amount of benefits received to calculate Effective Income.
11	(2) Alimony, Child Support, or Maintenance Income
12	(a) Definition
13 14 15	Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.
16	(b) Required Documentation
17 18 19	The Lender must obtain a copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.
20 21 22 23	When using a final divorce decree, legal separation agreement or court order, the Lender must obtain evidence of receipt using deposits on bank statements, cancelled checks, or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.
24 25	The Lender must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
26 27 28	The Lender must provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
29	(c) Calculation of Effective Income
30 31 32 33	When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support or Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.

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1 2 3 4 5 6	When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support or Maintenance Income for the most recent six months, the Lender may use the current payment to calculate Effective Income. If Alimony, Child Support or Maintenance Income has been received for less than two years, the Lender must use the average over the time of receipt.
7 8 9 10	If the Alimony, Child Support or Other Maintenance payments have not been consistently received for the most recent six months, the Lender must use the average of the income received over the previous two years to calculate Effective Income.
11	(3) Military Income
12	(a) Definition
13 14 15 16 17 18 19 20	Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including: • base pay • Basic Allowance for Housing • clothing allowances • flight or hazard pay • Basic Allowance for Subsistence • proficiency pay
21	The Lender may not use education benefits as Effective Income.
22	(b) Required Documentation
23 24 25 26 27	The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Loan, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.
28	(c) Calculation of Effective Income
29 30	The Lender must use the current amount of Military Income received to calculate Effective Income.
31	(4) Loan Credit Certificates
32	(a) Definition
33 34	Loan Credit Certificates refer to government loan payment subsidies other than Section 8 Homeownership Vouchers.

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1	(b) Required Documentation
2 3 4	The Lender must verify and document that the Governmental Entity subsidizes the Borrower's Loan Payments either through direct payments or tax rebates.
5	(c) Calculating Effective Income
6 7 8 9	Loan Credit Certificate income that is not used to directly offset the Loan Payment before calculating the qualifying ratios may be included as Effective Income. The Lender must use the current subsidy rate to calculate the Effective Income.
10	(5) Section 8 Homeownership Vouchers
11	(a) Definition
12 13 14	Section 8 Homeownership Vouchers refer to housing subsidies received unde the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).
15	(b) Required Documentation
16 17 18	The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.
19	(c) Calculation of Effective Income
20 21 22 23	The Lender may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Loan Payment. The Lender must use the current subsidy rate to calculate the Effective Income.
24	(6) Other Public Assistance
25	(a) Definition
26 27	Public Assistance refers to income received from government assistance programs.
28	(b) Required Documentation
29 30	Lenders must verify and document the income received from the government agency and that the income is reasonably likely to continue for three years.

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1	(c) Calculation of Effective Income
2 3	The Lender must use the current rate of Public Assistance received to calculate Effective Income.
4	(7) Automobile Allowance
5	(a) Definition
6 7	Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.
8	(b) Required Documentation
9 10	The Lender must verify and document the Automobile Allowance received from the employer for the previous two years.
11 12	The Lender must also obtain <u>IRS Form 2106</u> , <i>Employee Business Expenses</i> , for the previous two years.
13	(c) Calculation of Effective Income
14 15	The Lender must determine the portion of the allowance that can be considered Effective Income.
16 17 18	The Lender must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based or the current amount of the allowance received.
19 20 21 22	If the Borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include:
23	 the Borrower's monthly car payment; and
24 25	 any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.
26 27	Automobile Allowance refers to the amount of the Automobile Allowance that exceeds the Borrower's actual automobile expenditures.
28	(8) Retirement Income
29 30	Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

1	(a) Social Security Income
2	(i) Definition
3 4	Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.
5	(ii) Required Documentation
6 7 8	The Lender must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.
9 10 11 12	 For SSI, the Lender must obtain any one of the following documents: federal tax returns (minimum one year); the most recent bank statement evidencing receipt of income from the SSA;
13 14 15 16	 a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or a copy of the Borrower's form <u>SSA-1099/1042S</u>, <i>Social Security Benefit Statement</i>.
17 18 19 20 21 22 23	In addition to verification of income, the Lender must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.
24 25 26 27 28	If the Notice of Award or equivalent document does not have a defined expiration date, the Lender must consider the income effective and reasonably likely to continue. The Lender should not request additional documentation from the Borrower to demonstrate continuance of SSA income.
29 30 31	If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.
32	(iii)Calculation of Effective Income
33 34	The Lender must use the current amount of Social Security Income received to calculate Effective Income.

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1	(b) Pension
2	(i) Definition
3 4	Pension refers to income received from the Borrower's former employer(s).
5	(ii) Required Documentation
6 7 8	The Lender must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.
9 10 11 12 13 14	 The Lender must obtain any one of the following documents: federal tax returns (minimum one year); the most recent bank statement evidencing receipt of income from the former employer; or a copy of the Borrower's pension/retirement letter from the former employer.
15	(iii)Calculation of Effective Income
16 17	The Lender must use the current amount of Pension income received to calculate Effective Income.
18	(c) Individual Retirement Account and 401(k)
19	(i) Definition
20 21	Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.
22	(ii) Required Documentation
23 24 25	The Lender must verify and document the Borrower's receipt of recurring IRA/401(k) Income and that it is reasonably likely to continue for three years.
26 27 28 29	The Lender must obtain the most recent IRA/401(k) statement and any one of the following documents: • federal tax returns; or • the most recent bank statement evidencing receipt of income.
30	(iii)Calculation of Effective Income
31 32	For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA

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1 2 3 4 5	Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.
6	(9) Rental Income
7	(a) Definition
8 9	Rental Income refers to income received or to be received from the subject Property or other real estate holdings.
10	(b) Rental Income from Other Real Estate Holdings
11	(i) Standard
12 13 14 15 16	Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence.
17	(ii) Required Documentation
18 19	The Lender must obtain the Borrower's last two years' tax returns with Schedule E.
20	(iii)Calculation of Effective Net Rental Income
21 22 23	The Lender must calculate the net Rental Income by averaging the amount shown on Schedule E, provided the Borrower continues to own all Properties included on Schedule E.
24 25	Depreciation shown on Schedule E may be added back to the net income or loss.
26 27 28	If the Property has been owned for less than two years, the Lender must annualize the Rental Income for the length of time the Property has been owned.
29 30 31	For Properties with less than two years of Rental Income history, the Lender must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.
32 33	Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

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1	(c) Boarders of the Subject Property
2	(i) Definition
3 4	Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.
5	(ii) Standard
6 7 8	Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving boarder income.
9	(iii)Required Documentation
10 11	The Lender must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.
12 13 14	For purchase transactions, the Lender must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.
15	(iv) Calculation of Effective Income
16 17	The Lender must calculate the Effective Income by using the lesser of the two-year average or the current lease.
18	(10) Investment Income
19	(a) Definition
20 21 22	Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.
23	(b) Required Documentation
24 25 26	The Lender must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.
27	(c) Calculation of Effective Income
28 29 30	 The Lender must calculate Investment Income by using the lesser of: the average Investment Income earned over the previous two years; or the average Investment Income earned over the previous one year.

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1 2 3	The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.
4	(11) Expected Income
5	(a) Definition
6 7 8	Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of loan closing.
9	(b) Required Documentation
10 11 12 13 14	The Lender must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of loan closing. For expected Retirement Income, the Lender must verify the amount and that it are guaranteed to begin within 60 Days of the loan closing.
15	(c) Calculation of Effective Income
16 17 18 19 20	Income is calculated in accordance with the standards for the type of income being received. The Lender must also verify that the Borrower will have sufficient income or Cash Reserves to support the Loan Payment and any other obligations between loan closing and the beginning of the receipt of the income.
21	(12) Trust Accounts
22	(a) Definition
23 24	Trust Income refers to income that is regularly distributed to a Borrower from a trust.
25	(b) Required Documentation
26 27 28 29	The Lender must verify and document the existence of the Trust Agreement of other trustee statement. The Lender must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.
30 31	The Lender must verify that regular payments will continue for at least the first three years of the loan term.

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1	(c) Calculation of Effective Income
2 3	The Lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.
4	(13) Annuities or Similar
5	(a) Definition
6 7	Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.
8	(b) Required Documentation
9 10 11 12	The Lender must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the Loan. The Lender must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.
13	(c) Calculation of Effective Income
14 15	The Lender must use the current rate of the annuity to calculate Effective Income.
16 17 18	The Lender must subtract any of the assets used for the MCI to purchase the subject Property from the Borrower's liquid assets prior to calculating any Annuity Income.
19	(14) Notes Receivable Income
20	(a) Definition
21 22 23	Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or other similar credit instrument.
24	(b) Required Documentation
25 26 27 28 29	The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Loan.
30	(c) Calculation of Effective Income
31 32	For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to

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1 2 3	fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.
4	(15) Non-Taxable Income (Grossing Up)
5	(a) Definition
6 7 8 9 10 11 12 13 14 15 16	Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to: • some portion of Social Security Income; • some federal government employee Retirement Income; • Railroad Retirement benefits; • some state government Retirement Income; • certain types of disability and public assistance payments; • child support; • military allowances; and • other income that is documented as being exempt from federal income taxes.
17	(b) Required Documentation
18 19 20	The Lender must document and support the amount of income to be Grossed Up for any non-taxable income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.
21	(c) Calculation of Effective Income
22 23	The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income.
24 25 26 27 28	The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the Lender may Gross Up the Non-Taxable Income by 15 percent.
29 30	The Lender may not make any additional adjustments or allowances based on the number of the Borrower's dependents.
31	iii. Asset Requirements
32	(A) General Asset Requirements
33 34	The Lender must verify that the Borrower has sufficient funds to cover the required downpayment and other costs to be paid in cash at closing. The Lender may only

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1 2	consider assets derived from acceptable sources in accordance with the requirements outlined below.
3 4	Closing costs, prepaid items and other <u>fees may not be applied</u> towards the Borrower's minimum downpayment requirement.
5	(B) Earnest Money Deposit
6 7 8 9 10 11 12 13	 The Lender must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining: a copy of the Borrower's cancelled check; certification from the deposit-holder acknowledging receipt of funds; or a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.
14	(C) Cash to Close and Reserves
15 16	The Lender must document all funds that are used for the purpose of qualifying for or closing the Loan, including those to satisfy debt or pay costs outside of closing.
17	(1) Cash to Close
18 19	The Lender must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.
20	(a) Determining the Amount Needed for Closing
21 22 23	For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Loan is the difference between the total cost to acquire the Property and the Total Loan Amount.
24 25 26	For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Loan is the difference between the total payoff requirements of the Loan being refinanced and the Total Loan Amount.
27	(b) Lender Responsibility for Estimating Settlement Requirements
28 29 30	In addition to the minimum downpayment, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide a loan settlement.
31 32	Refer to Fees and Charges below for details on which fees are allowed to be financed and which fees must be collected in cash from the Borrower.

1	(2) Fees and Charges
2	The Lender or sponsored TPO may charge and collect from Borrowers those
3	customary and reasonable closing costs necessary to close the Loan, in
4 5	compliance with permissible fees and charges described in this section. Fees and
3	charges must not exceed the actual costs.
6	In addition to the minimum downpayment, additional Borrower expenses must be
7	included in the total amount of cash that the Borrower must provide at loan
8	settlement. Fees and charges may be levied to the Borrower in amounts that are
9	reasonable and customary for the area, and where permissible as described below.
10	(a) Financeable Fees and Charges
11	(i) General
12	The fees and charges listed below incurred in connection with a
13	Manufactured Home Loan may be included in the loan amount:
14	 origination fees (payable to the Lender or sponsored TPO), not to
15	exceed 2 percent of the Base Loan Amount, before adding the
16	UFIP. The origination fee includes other Lender costs of doing
17	business. Related expenses are not permitted in addition to the
18	origination fee, such as document preparation, copying,
19	processing, underwriting, and courier fees;
20	 state and local sales taxes;
21	 premiums paid for hazard insurance for the first year of the loan
22	term, including premiums for flood insurance where applicable;
23	• credit report costs;
24	 appraisal fees in connection with the purchase or refinancing of an
25	Existing Manufactured Home;
26	 fees for determining whether the Property is in an SFHA;
27	 recording fees, recording taxes, filing fees, and documentary stamp
28	taxes;
29	• a fee for inspection of the Property by the Lender or its agent, not
30	to exceed a <u>maximum set by HUD</u> ; and
31	 such other items as may be specified by HUD.
32	Their inclusion must not increase the total principal loan balance beyond
33	the <u>Nationwide Loan Limits</u> permitted.
34	The Dealer may advance the funds for the fees and charges and be
35	reimbursed by the Lender from the loan proceeds. Alternatively, a Lender
36	may pay these fees and charges and deduct them from the loan proceeds
37	paid to the Dealer. In either case, there must be full disclosure to the
38	Borrower.

1	(u) Upfront Insurance Premium
2 3 4 5	Any portion of this UFIP may be financed into the Loan provided that the final loan amount does not exceed the Nationwide Loan Limits. For Loans originated by a Dealer, the Upfront Insurance Premium Rider must be included in the case binder.
6 7	Any UFIP amounts paid in cash are added to the total cash settlement requirements.
8	(b) Allowable Fees and Charges That May Not be Financed
9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	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, in compliance with Fees and Charges that May be Collected, but May Not be Financed: • a fee for the services of a qualified Closing Agent to act on behalf of the Lender in closing a Direct Loan transaction. The fee for a Closing Agent includes, and is not in addition to, the document signing fee; • 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. This fee category includes preparation of the lien instrument by a third party that is unaffiliated with the Lender. Preparation of the lien instrument by the Lender or its Affiliate is represented by the allowed origination fee; • title insurance costs (applicable only for lot/real estate); • survey costs (applicable only for lot/real estate); • payments into a tax escrow account for the current year (applicable only for lot/real estate); and
31	(c) Fee for Third-Party Originator
32 33	The Lender may pay a reasonable fee to the sponsored TPO, but the fee must not be charged to the Borrower.
34	(3) Seller Payments
35 36 37	When described in a standard real estate contract for a Manufactured Home Lot or Combination Loan, the seller may pay costs that are normally paid by a real estate seller, such as preparing and recording the deed that transfers title to the buyer.

1	(4) Other Costs
2 3 4	In addition to the minimum downpayment, the following are additional borrower expenses that must not be financed, and must be included in the total amount of cash that the Borrower must provide at loan settlement.
5	(a) Prepaid Items (Including Per Diem Interest)
6 7	Prepaid items may include flood and hazard insurance premiums, loan insurance premiums, property taxes, and per diem interest.
8	(b) Ineligible Contract Options and Accessories
9 10 11	Items listed in the sales contract that may not be financed into the Loan must be included in the total cash requirements for the Loan. These items include Furniture and small appliances.
12	(c) Repairs and Improvements
13	The cost of repairs and improvements may not be financed into the Loan.
14	(d) Premium Pricing on FHA-Insured Loans
15	Premium Pricing refers to a credit from a Lender for the interest rate chosen.
16 17 18	Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the interested party limitation.
19 20 21 22 23 24 25	 The funds derived from a premium priced Loan: must be disclosed as required, and in accordance with RESPA where applicable; must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and may not be used for payment of debts, collection accounts, escrow
26	shortages or missed Loan Payments, or Judgments.
27	(e) Referral Fees
28 29 30 31	Neither the Lender nor the Borrower may pay a referral fee to any Dealer, home manufacturer, contractor, supplier, real estate broker, loan broker, or any other party in connection with the origination of a Loan insured under Title I.

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1	(f) Third Party Origination Fees
2 3 4	Lenders may negotiate payment with third parties for their origination of Title I Loans. Lenders engaged with sponsored TPOs must comply with the Sponsor/Sponsored Third-Party Originator Relationship requirements.
5	(g) Interested Party Contributions on the Settlement Statement
6 7	The Lender may apply interested party credits to the closing costs and prepaid items, including any items Paid Outside Closing (POC).
8 9 10	The refund of the Borrower's POC may be used toward the Borrower's downpayment, if the Lender documents that the POC was paid with the Borrower's own funds.
11 12 13	The Lender must identify the total interested party credits on the Settlement Statement or similar legal document or in an addendum. The Lender must identify each item paid by Interested Party Contributions.
14	(5) Minimum Verified and Documented Cash Reserves
15	(a) Definition
16 17	Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.
18	(b) Standard
19 20 21	Borrowers must have a minimum of two months of Cash Reserves following loan settlement from their own funds when the Borrower's credit does not meet <u>Sufficiency of Non-Traditional Credit References</u> .
22	(6) Sources of Funds
23	The Lender must verify liquid assets for cash to close and Reserves as indicated.
24	(a) Checking and Savings Accounts
25	(i) Definition
26 27	Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits
28	(ii) Standard
29 30	The Lender must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

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1 2 3 4	For recently opened accounts and recent individual deposits of more than 1 percent of the loan amount, the Lender must obtain documentation of the deposits. The Lender must also verify that no debts were incurred to obtain part, or all, of the downpayment.
5	(iii)Required Documentation
6 7 8	If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.
9	Traditional Documentation
10 11	The Lender must obtain a written VOD and the Borrower's most recent statement for each account.
12	Alternative Documentation
13 14 15 16	If a VOD is not obtained, a statement provided by the financial institution showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the Lender must obtain statement(s) for the most recent two months.
17	(b) Cash on Hand
18	(i) Definition
19 20	Cash on Hand refers to cash held by the Borrower outside of a financial institution.
21	(ii) Standard
22 23	The Lender must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the Lender or retailer.
24	(iii)Required Documentation
25 26 27	The Lender must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.
28 29 30 31	The Lender must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:
32	income stream;spending habits;

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1 2	documented expenses; andhistory of using financial institutions.
3	(c) Retirement Accounts
4	(i) Definition
5 6	Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.
7	(ii) Standard
8 9 10 11 12 13	The Lender may include up to 60 percent of the value of assets, less any existing Loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plans, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
14 15	The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.
16	(iii)Required Documentation
17 18 19 20	The Lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.
21 22	If any portion of the asset is required for funds to close, evidence of liquidation is required.
23	(d) Stocks and Bonds
24	(i) Definition
25	Stocks and Bonds are investment assets accumulated by the Borrower.
26	(ii) Standard
27 28	The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.
29 30 31	If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third- party verification. Government-issued savings bonds are valued at the

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1 2	original purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.
3	(iii)Required Documentation
4 5 6	The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.
7 8	For stocks and bonds not held in a brokerage account the Lender must obtain a copy of each stock or bond certificate.
9	(e) Private Savings Clubs
10	(i) Definition
11 12	Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.
13	(ii) Standard
14 15	The Lender may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.
16 17 18 19	The Lender must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The Lender must also determine that the received funds were reasonably accumulated, and not borrowed.
20	(iii)Required Documentation
21 22	The Lender must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.
23	(f) Gifts (Personal and Equity)
24	(i) Definition
25 26	Gifts refer to contributions of cash or equity with no expectation of repayment.
27	(ii) Standards for Gifts
28	Acceptable Sources of Gifts Funds
29 30 31	 Gifts may be provided by: the Borrower's Family Member; the Borrower's employer or labor union;

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1 2 3 4 5 6 7	 a close friend with a clearly defined and documented interest in the Borrower; a charitable organization; or a governmental agency or public Entity that has a program providing homeownership assistance to: low or moderate income families; or first-time homebuyers.
8 9 10	Any Gift of the Borrower's downpayment must also comply with the additional requirements set forth in <u>Sources of Funds</u> for the Borrower's downpayment.
11 12 13 14	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 Home Loans.
15	Reserves
16 17	Gift funds in excess of funds needed to close may not be considered as Cash Reserves.
18	Donor's Source of Funds
19	Cash on Hand is not an acceptable source of donor gift funds.
20	(iii)Required Documentation
21 22 23 24 25 26	The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following: • the donor's name, address, and telephone number; • the donor's relationship to the Borrower; • the dollar amount of the Gift; and • a statement that no repayment is required.
27	Documenting the Transfer of Gifts
28 29	The Lender must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.
30 31 32 33	(a) If the gift funds have been verified in the Borrower's account, the Lender must obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.
34 35	(b) If the gift funds are not verified in the Borrower's account, the Lender must obtain the certified check, money order, cashier's

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2	showing the withdrawal from the donor's account.
3 4 5 6	(c) If the gift funds are paid directly to the settlement agent, the Lender must verify that the settlement agent received the funds from the donor for the amount of the Gift, and that the funds were from an acceptable source.
7 8 9 10 11	(d) If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Lender must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Lender.
12 13 14 15	(e) Regardless of when gift funds are made available to a Borrower, the Lender must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source, and were the donor's own funds.
16	(iv) Standards for Gifts of Equity
17	Who May Provide Gifts of Equity
18 19	Only Family Members may provide equity credit as a Gift on Property being sold to other Family Members.
20	Required Documentation
21 22 23 24 25 26	The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following: • the donor's name, address, and telephone number; • the donor's relationship to the Borrower; • the dollar amount of the Gift; and • a statement that no repayment is required.
27	(g) Interested Party Contributions
28	(i) Definitions
29 30	Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.
31 32 33	Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and Discount Points.

1 Discount Points refers to a fee charged by the Lender, separate from 2 interest but part of the total finance charges on the Loan, that is part of the 3 Lender's total yield on the Loan needed to maintain a competitive position 4 with other types of investments. One Discount Point equals 1 percent of 5 the principal amount of the Loan. As Discount Points on the Loan increase, the interest rate can be expected to decrease in a fairly consistent 6 7 relationship. 8 (ii) Standard 9 Interested Parties may contribute toward the Borrower's origination fees, 10 other closing costs and Discount Points. The 6 percent limit also includes: Interested Party payment for permanent and temporary interest rate 11 buydowns, and other payment supplements; 12 13 payments of loan interest for fixed rate Loans; 14 Loan Payment protection insurance; and payment of the UFMIP. 15 Interested Party Contributions that exceed actual origination fees, other 16 closing costs, and Discount Points are considered an inducement to 17 18 purchase. Interested Party Contributions exceeding 6 percent are considered an inducement to purchase. 19 Interested Party Contributions may not be used for the Borrower's 20 21 downpayment. 22 Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an 23 Interested Party Contribution. 24 25 (iii) Required Documentation 26 The Lender must document the total Interested Party Contributions on the 27 underwriter's worksheet, Settlement Statement or similar legal document, and the sales contract. 28 (h) Inducements to Purchase 29 30 (i) Definition 31 Inducements to Purchase refer to certain expenses paid by the seller and/or 32 another Interested Party on behalf of the Borrower and result in a dollarfor-dollar reduction to the Adjusted Value of the Property before applying 33 the appropriate LTV percentage. 34 35 These inducements include, but are not limited to: 36 decorating allowances;

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1	 repair allowances;
2	• excess rent credit;
3	 moving costs;
4	 paying off consumer debt;
5	Personal Property;
6	 sales commission on the Borrower's present residence; and
7	 below market rent, except for Borrowers who meet the Identity-of-
8	Interest exception for Family Members.
Ü	invited the plant for I dilling Transcero.
9	(ii) Personal Property
10	Replacement of existing Personal Property items listed below are not
11	considered an inducement to purchase, provided the replacement is made
12	prior to settlement and no cash allowance is given to the Borrower. The
13	inclusion of the items below in the sales agreement is also not considered
14	an inducement to purchase if inclusion of the item is customary for the
15	area:
16	range
17	 refrigerator
18	 dishwasher
19	washer
20	• dryer
21	• carpeting
22	(iii)Sales Commission
23	An inducement to purchase exists when the seller and/or Interested Party
24	agrees to pay any portion of the Borrower's sales commission on the sale
25	of the Borrower's present residence.
23	of the Boffower's present residence.
26	An inducement to purchase also exists when a Borrower is not paying a
27	Real Estate Commission on the Sale of their present residence, the same
28	real estate broker or agent is involved in both transactions, and the seller is
29	paying a Real Estate Commission on the Sale of the Property being
30	purchased by the Borrower that exceeds what is typical for the area.
31	(iv) Rent Below Fair Market
32	Rent may be an inducement to purchase when the sales agreement reveals
33	that the Borrower has been living in the Property rent-free or has an
34	agreement to occupy the Property at a rental amount considerably below
35	Fair Market Value (FMV).
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36	Rent below FMV is not considered an inducement to purchase when a
37	builder fails to deliver a Property at an agreed-upon time, and permits the

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2	construction is complete.
3	(i) Downpayment Assistance Programs
4	FHA does not "approve" downpayment assistance programs administered by
5	charitable organizations, such as nonprofits. FHA also does not allow
6	nonprofit Entities to provide Gifts to pay off:
7	Installment Loans
8	• credit cards
9	• collections
10	 Judgments
11	• liens
12	• similar debts
13	The Lender must ensure that a Gift provided by a charitable organization
14	meets the appropriate FHA requirements, and that the transfer of funds is
15	properly documented.
16	(i) Gifts from Charitable Organizations that Lose or Give Up Their
17	Federal Tax-Exempt Status
18	If a charitable organization makes a Gift that is to be used for all, or part,
19	of a Borrower's downpayment, and the organization providing the Gift
20	loses or gives up its federal tax-exempt status, FHA will recognize the Gif
21	as an acceptable source of the downpayment, provided that:
22	 the Gift is made to the Borrower;
23	 the Gift is properly documented; and
24	 the Borrower has entered into a contract of sale (including any
25	amendments to purchase price) on or before the date the IRS
26	officially announces that the charitable organization's tax-exempt
27	status is terminated.
28	(ii) Lender Responsibility for Ensuring that Downpayment Assistance
29	Provider is a Charitable Organization
30	The Lender is responsible for ensuring that an Entity providing
31	downpayment assistance is a charitable organization as defined by Section
32	501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section
33	501(c) (3) of the IRC.
34	One resource for this information is the IRS Exempt Organization Select
35	Check, which contains a list of organizations eligible to receive tax-
36	deductible charitable contributions.

1 (j) Secondary Financing 2 Secondary Financing is any financing other than the first Loan that creates a lien against the Property. Any such financing that does create a lien against 3 the Property is not considered a Gift or a grant even if it does not require 4 5 regular payments or has other features forgiving the debt. 6 Secondary Financing is not permitted under the Manufactured Home Loan 7 program. 8 (k) Loans 9 Loan means a Disbursement of proceeds (funds) or an advance of credit to or 10 for the benefit of a Borrower who promises to repay the principal amount of such Disbursement or advance, plus interest, if any, at a stated annual rate 11 over time, with the Borrower's obligation evidenced by the Borrower's 12 13 execution of a Note. Loan also means a purchase by a Lender of a Note evidencing such obligation, 14 or a refinancing of an existing obligation with or without an additional 15 Disbursement of proceeds or advance of credit. 16 17 (i) Collateralized Loans **Definition** 18 19 A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment 20 accounts, or Real Property. These assets may include stocks, bonds, and 21 real estate other than the Property being purchased. 22 23 Standard 24 The minimum investment and funds to close may be derived from a collateralized loan, provided that the funds are secured by other property 25 26 that the applicant owns. The security must not be against the home being 27 purchased. 28 Loans secured against deposited funds, where repayment may be obtained 29 through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The Lender must reduce the amount of the 30 31 corresponding asset by the amount of the collateralized loan. 32 Who May Provide Collateralized Loans 33 Only an independent third party may provide the borrowed funds for 34 collateralized loans.

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1 2 3 4 5 6	 The seller, Lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include: unsecured signature loans; cash advances on credit cards; borrowing against household goods and Furniture; and other similar unsecured financing.
7 8 9	Any loan of the Borrower's MCI must also comply with the additional requirements set forth in <u>Sources of Funds</u> for the Borrower's downpayment.
10	Required Documentation
11 12 13	The Lender must verify and document the existence of the Borrower's assets used to collateralize the Loan, the promissory Note securing the asset, and the loan proceeds.
14	(ii) Retirement Account Loans
15	Definition
16 17	A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.
18	Standard
19 20	The Lender must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.
21	Required Documentation
22 23	The Lender must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.
24	(iii)Disaster Relief Loans
25	Definition
26 27 28	Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.
29	Standard
30 31 32	Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to

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1 the FHA-insured Loan, and meet the requirements for Secondary 2 Financing. 3 Any loan of the Borrower's MCI must also comply with the additional requirements set forth in Sources of Funds for the Borrower's MCI. 4 5 Any monthly payment arising from this type of loan must be included in the qualifying ratios. 6 7 **Required Documentation** 8 The Lender must verify and document the promissory Note. 9 (l) Grants 10 (i) Disaster Relief Grants 11 **Definition** 12 Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a 13 natural disaster. Disaster relief grants may be used for the Borrower's 14 15 downpayment. **Required Documentation** 16 17 The Lender must verify and document the Borrower's receipt of the grant 18 and terms of use. 19 Any grant of the Borrower's MCI must also comply with the additional 20 requirements set forth in Sources of Funds for the Borrower's 21 downpayment. (ii) Federal Home Loan Bank Homeownership Set-Aside Grant 22 23 **Program** 24 Standard 25 The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source 26 27 of downpayment assistance and may be used in conjunction with FHAinsured financing. Secondary financing that creates a lien against the 28 29 Property is not considered a Gift or grant even if it does not require regular payments or has other features forgiving the debt. 30 31 Any AHP Set-Aside funds used for the Borrower's MCI must also comply 32 with the additional requirements set forth in Sources of Funds for the 33 Borrower's MCI.

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1	Required Documentation
2 3	The Lender must verify and document the Borrower's receipt of the grant and terms of use.
4	The Lender must also verify and document that the Retention Agreement
5	required by the FHLB is recorded against the Property and results in a
6	Deed Restriction, and not a second lien. The Retention Agreement must:
7	 provide that the FHLB will have ultimate control over the AHP
8	grant funds if the funds are repaid by the Borrower;
9	• include language terminating the legal restrictions on conveyance
10	if title to the Property is transferred by foreclosure or DIL, or
11	assigned to the Secretary of HUD; and
12	 comply with all other FHA regulations.
13	(m)Employer Assistance
14	(i) Definition
15	Employer Assistance refers to benefits provided by an employer to
16	relocate the Borrower or assist in the Borrower's housing purchase,
17	including closing costs, Mortgage or Loan Insurance Premiums, or any
18	portion of the Minimum Required Investment or MCI.
19	Employer Assistance does not include benefits provided by an employer
20	through secondary financing.
21	A salary advance cannot be considered as assets to close.
22	(ii) Standard
23	Relocation Guaranteed Purchase
24	The Lender may allow the net proceeds (relocation guaranteed purchase
25	price minus the outstanding liens and expenses) to be used as cash to
26	close.
27	Employer Assistance Plans
28	The amount received under Employer Assistance Plans may be used as
29	cash to close.

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(iii)Required Documentation
Relocation Guaranteed Purchase
If the Borrower is being transferred by their company under a guaranteed sales plan, the Lender must obtain an executed buyout agreement signed by all parties, and a receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding loan debt.
The Lender must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.
Employer Assistance Plans
The Lender must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Lender must verify and document that the Borrower has sufficient cash for closing.
(n) Sale of Personal Property
(i) Definition
Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.
(ii) Standard
The Lender must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.
(iii)Required Documentation
Borrowers may sell Personal Property to obtain cash for closing.
The Lender must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.

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1	(o) Trade-In of Manufactured Home
2	(i) Definition
3 4 5	Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of one Manufactured Home that is not considered real estate to a Dealer o an independent third party.
6	(ii) Standard
7 8 9	The net proceeds from the Trade-In of a Manufactured Home may be used as the Borrower's source of funds for the purchase of another Manufactured Home.
10 11	Trade-ins cannot result in cash back to the Borrower from the Dealer or independent third party.
12	(iii)Required Documentation
13 14 15	The Lender must verify and document the installment sales contract or other agreement evidencing a transaction and the value of the trade-in or sale. The Lender must obtain documentation to support the Trade Equity.
16	(p) Sale of Real Property
17	(i) Definition
18 19	The Sale of Real Property refers to the sale of Property currently owned by the Borrower.
20	(ii) Standard
21 22	Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.
23	(iii)Required Documentation
24 25 26	The Lender must verify and document the actual sale and the Net Sale Proceeds by obtaining a fully executed Settlement Statement or similar legal document.
27 28	The Lender must also verify and document that it was an Arm's Length Transaction, and that the Borrower is entitled to the Net Sale Proceeds.

1	(q) Real Estate Commission from Sale of a Subject Property
2	(i) Definition
3 4 5	Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the Property being purchased.
6	(ii) Standard
7 8 9	Lenders may consider Real Estate Commissions from the Sale of the Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.
10 11	A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard Gift requirements.
12	(iii)Required Documentation
13 14 15 16	The Lender must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Property being purchased.
17	(r) Rent Credits
18	(i) Definition
19 20	Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.
21	(ii) Standard
22 23	The Lender may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MCI.
24	(iii)Required Documentation
25 26	The Lender must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.
27	iv. Final Underwriting Decision
28 29 30	The Lender is ultimately responsible for making an underwriting decision on behalf of their Lender in compliance with HUD requirements. The Lender must complete the interview with the Borrower before making a final underwriting decision on the Loan.

1	(A) Duty of Care/Due Diligence
2 3 4 5	The underwriter must exercise the same level of care that would be used in underwriting a Loan entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Loan.
6	(B) Specific Underwriter Responsibilities
7 8 9 10 11 12 13	The underwriter must review each Loan as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Loan Payments, in order to make an underwriting decision on behalf of their Direct Endorsement (DE) Lender in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the loan obligation according to the terms of the Loan.
14 15 16 17 18 19 20 21 22 23 24 25 26	 As the responsible party, the underwriter must: review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation; determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Loan, and the overall acceptability of the Loan for FHA insurance; identify any inconsistencies in information obtained by the Lender in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Loan; and resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and the resolutions of the inconsistencies in the file.
27 28	The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.
29	(C) Underwriting of Credit and Debt
30 31 32	The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report (see Credit Requirements above).
33 34	The underwriter must ensure that there are no other unpaid obligations incurred in connection with the loan transaction or the purchase of the Property.
35	(D) Underwriting of Income
36 37	The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see <u>Income Requirements</u> above).

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1	(E) Underwriting of Assets
2 3 4	The underwriter must review the assets of a Borrower required to close the Loan and verify that they have been supported with the proper documentation (see <u>Asset Requirements</u> above).
5	(F) Verifying Insurance Premium and Loan Amount
6 7 8	The underwriter must review the insurance premium and loan amount and verify that they have been supported with the proper documentation (see <u>Underwriting the Borrower</u>).
9	(G) Calculating Qualifying Ratios
10 11 12 13 14	For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Housing Payment to Effective Income Ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the Approvable Qualifying Ratios Chart .
15 16 17	The Lender must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.
18	(H) Calculating Maximum Monthly Housing Expenses
19 20 21 22 23 24 25 26 27 28 29 30	The total Loan Payment includes: P&I real estate taxes; hazard insurance; flood insurance, as applicable; insurance premium; Homeowners' Association (HOA) Fees or manufactured home community or park association fees or expenses; lot rent; special assessments; payments for any acceptable secondary financing; and any other escrow payments.
31	(I) Estimating Real Estate Taxes
32 33	The Lender must use accurate estimates of monthly tax escrows (as applicable) when calculating the total Loan Payment.
34	Tax estimates must be based on lots that will be owned by the Borrower.

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(J) Temporary Interest Rate Buydowns

- 2 Temporary interest rate buydowns are not permitted.
- Interest rate buydowns must be permanent for the duration of the loan term.

(K) Calculating Total Fixed Payment

- 5 The total fixed payment includes:
 - the total Loan Payment; and
 - monthly obligations on all debts and liabilities.
- The maximum PTI and Total Fixed Payments to Effective Income (DTI) ratios applicable to manually underwritten Loans are summarized in the matrix below.
- The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Loan. Non-occupant co-Borrower income may not be included.

	Approvable	e Qualifying Ratios
Credit Sufficiency Requirements	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
Credit Sufficiency Requirements Not Met	31/43	Borrowers that do not meet credit sufficiency requirements: • must not exceed 31/43 ratios; and • must have documented verification of two months Cash Reserves. Exception: Loan financing an Energy Efficient Home (EEH): • may have stretch ratios of 33/45; and • must have documented verification of two months Cash Reserves. Other compensating factors are permitted in addition to these requirements.
Requirements for Sufficient Credit is Met	31/43	No compensating factors are required.
Requirements for Sufficient Credit is Met	33/45	Compensating factors required.

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1	(L) Required Documentation for Acceptable Compensating Factors
2 3	If a DTI ratio exceeds HUD's maximum allowable amount by 2 percent or less, a compensating factor may be considered when determining eligibility.
4 5 6	The following describes the compensating factors and required documentation that may be used to justify approval of Loans with the credit sufficiency and qualifying ratios described above.
7	(1) Energy Efficient Homes
8	(a) Definition
9 10 11	A Manufactured Home is classified as an EEH when it is ENERGY STAR qualified, and was manufactured within two years of its Title I Loan Closing Date.
12 13 14	Every ENERGY STAR qualified Manufactured Home receives a blue ENERGY STAR label, usually on the home's electrical panel or next to its Data Plate: See the Manufactured Home fact sheet for more information.
15	(b) Standard
16 17 18 19 20	When the Loan finances a Manufactured Home that is ENERGY STAR qualified, the Borrower's qualifying ratios may be "stretched" two percentage points higher than the standard limits. The qualifying ratio limit for a Manufactured Home that complies with EEH standards is 33 percent for the housing-to-income ratio and 45 percent for the Debt-to-Income ratio.
21	(c) Required Documentation
22 23 24 25	The case binder must contain evidence that the home was manufactured to ENERGY STAR standards, such as: • For new homes, the Manufacturer's Invoice must indicate that the unit is ENERGY STAR qualified.
26 27	 For existing homes, the case binder must contain a photo of the ENERGY STAR label.
28	(2) Verified and Documented Cash Reserves
29 30	Verified and documented Cash Reserves may be cited as a compensating factor when the Reserves are equal to or exceed three total monthly Loan Payments.
31 32 33	Reserves are calculated as the Borrower's total <u>assets</u> less: • the total funds required to close the Loan; • Gifts; and
34	 borrowed funds.

1	(3) Equivalent or Reduced Housing Payment
2 3 4	If the proposed monthly Loan Payment is less than or equal to the current total monthly housing payment for the previous 12 months, then that may be used as a compensating factor.
5 6	The file must document a 12 month housing payment history with no late payments.
7 8	The Current Total Monthly Housing Payment refers to the Borrower's current total Loan Payment or current total monthly rent obligation.
9	(4) Significant Additional Income Not Reflected in Effective Income
10 11 12 13 14 15 16	 Additional income or benefits not included in effective gross income that directly impacts the applicant's ability to meet financial obligations include: bonuses, part-time or Seasonal Employment that is not reflected in Effective Income; employee benefits (company car, clothing allowance); and public benefits (nutritional assistance/food stamps/seasonal unemployment).
17 18 19 20 21 22	 The following can also be cited as a compensating factor subject to the following requirements: the Lender must verify and document that the Borrower has received this income, and it will likely continue; and the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 35/47.
23 24	Income from Non-Borrowing Spouses or other parties not obligated for the Loan may not be counted under this criterion.
25	(5) Potential for Increased Future Earnings
26 27 28	A Borrower that has potential for increased future earnings may be cited as a compensating factor with documented justification, such as job training or education in the applicant's profession.
29	(6) Secondary Wage Earner Potential (Employment Relocation)
30 31 32 33	Potential income for a secondary wage earner may be cited as a compensating factor under the following condition: the secondary wage earner has relocated with a primary wage earner, who is purchasing a home as a result of a recent employment relocation.
34 35	The case binder must document all of the following: • evidence that the primary wage earner relocated for a new job;

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1 2 3	 at least a 12 month work history for the secondary wage earner, prior to relocation; and the prospects of available employment.
4	(7) Residual Income
5 6 7 8 9	Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found in the Table of Residual Incomes By Region in the Department of Veterans Affairs (VA) <u>Lenders Handbook - VA Pamphlet 26-7</u> , Chapter 4.9 b and e.
10	(a) Calculating Residual Income
11 12 13 14 15 16 17	Residual income is calculated as total Effective Income of all occupying Borrowers less: • state income taxes; • federal income taxes; • municipal or other income taxes; • retirement or Social Security; • proposed total Loan Payment; • estimated maintenance and utilities;
18 19 20	 job related expenses (e.g., child care); and the amount of the Gross Up of any Non-Taxable Income.
21 22 23 24	If available, Lenders must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Lenders may rely upon current pay stubs.
25 26 27	For estimated maintenance and utilities, Lenders must multiply the Gross Living Area (GLA) of the Property by the maintenance and utility factor found in the <i>Lenders Handbook</i> - VA Pamphlet 26-7.
28	(b) Using Residual Income as a Compensating Factor
29 30 31 32	To use residual income as a compensating factor, the Lender must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."
33	(c) Exception
34 35	The Lender may omit any individuals from "family size" who are fully supported by a source of verified income that is not included in the Effective

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Income in the loan analysis. These individuals must voluntarily provide 1 2 sufficient documentation to verify their income to qualify for this exception. 3 From the table provided in *Lenders Handbook* - VA Pamphlet 26-7, select the applicable loan amount, region and household size. If residual income equals 4 5 or exceeds the corresponding amount on the table, it may be cited as a 6 compensating factor. 7 v. Borrower Approval or Denial 8 (A) Re-Underwriting 9 The Lender must re-underwrite a Loan when any data element of the Loan changes 10 and/or new Borrower information becomes available. 11 (B) Required Documentation of Final Underwriting Review Decision The underwriter must provide an underwriting worksheet to document their final 12 underwriting decision. 13 (C) HUD Employee Loans 14 If the Loan involves a HUD employee, the Lender must condition the Loan on the 15 approval of the Loan by HUD. The Lender must submit the underwritten loan 16 application package to the Director of the FOC for final underwriting approval. 17 (D) Responsibilities upon Denial 18 When a Loan is denied, the Lender must comply with all requirements of the FCRA, 19 20 and the ECOA, as implemented by Regulation B (12 CFR Part 1002). 21 If the Loan has been reported in FHAC, Lenders must cancel any assigned case numbers that will not be closed as an FHA Loan. 22 23 e. Pre-Closing Reviews by HUD 24 i. Standard All Loans are subject to a pre-closing review period in accordance with the Direct 25 26 Endorsement Authority process. HUD will examine each Loan prior to closing to ensure 27 that the Lender is consistently submitting Loans that satisfactorily meet Title I program 28 requirements. Once a Lender has completed the initial pre-closing review period, which 29 includes the submission of a minimum of 10 Loans that are approved to close, HUD may 30 approve the Lender for the Title I Direct Endorsement Program that will allow the Lender

Lenders that are approved for the <u>Direct Endorsement process</u> are not required to submit loan origination documents for pre-closing.

to underwrite and close Title I Manufactured Home Loans without prior review by HUD.

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- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

ii. Pre-Closing Case Binder Submission

The Lender must first underwrite the Loan, then include the following documents in the case binder and submit to the FOC before closing the Loan.

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Purchase contract(s) or sales agreement(s) for unit and/or lot

Appraisal – not applicable for newly constructed Manufactured Homes; applicable to:

- purchase of an existing home; or
- refinance of a non FHA-insured Loan.

Invoices:

- Manufacturer's Invoice; and
- skirting, air conditioning, other appurtenances, etc.

Itemized statement of costs, fees and charges

Evidence of lot ownership or Leasehold for individual lot

Certification of home site suitability

Manufacturer's *Warranty for New Manufactured Home* (form <u>HUD-55014</u>)

Verification(s) of identity and SSNs

Documentation of CAIVRS and LDP/ General Services Administration's (GSA) SAM clearance

Truth-in-Lending Disclosure

Right Side

Underwriter's report/worksheet showing calculations for maximum loan amount, LTV and debt-to-income ratios, and listing any compensating factors

Credit Application for Manufactured (Mobile) Home (form <u>HUD-56001-MH</u>)

Explanation and supporting documentation for adverse credit information and/or inquiries

Verification of rent payment history

Verification(s) of payment history for other accounts not on credit report, if any

Verification(s) of employment, income, and gaps (including explanations)

Verification of assets, including:

- downpayment (deposit);
- other assets, if needed to complete the transaction or for compensating factor; or
- concurrent financing, if any.

Source of funds for downpayment and other assets

Appraisal for Trade-In of Manufactured Home (if any for source of

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E. Title I Insured Programs

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Right Side	
funds)	
Loan processing file notes, if any	

iii. Lender Options for Notice of Return Issued Pre-Closing

- In the event of a Notice of Return (NOR) on a pre-closing case binder review, Lenders may exercise any of the following options:
 - take corrective actions (e.g., submit additional or revised documentation) to resolve reasons for the NOR determination; and/or
 - close the Loan without FHA insurance; or
 - cancel/reject the Loan.

iv. 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 case binder and submit to HUD for final approval prior to closing the Loan.
- f. Closing
- Before disbursing the proceeds of a Manufactured Home Loan, the Lender must confirm that
- 15 the case binder is complete and that the following documents, if applicable to the Loan, have
- been obtained for retention in the case binder.

i. Lender Closing Requirements

- The <u>case binder</u> must contain all documentation that has been relied upon in support of the Lender's decision to approve the Loan.
- 20 **ii.** Title Insurance
- At its option, the Lender may obtain title insurance for Property treated as real estate.
- 22 iii. Closing in the Lender's Name
- A Loan may close in the name of the Lender or the sponsoring Lender, the principal or
- the authorized agent. TPOs that are not FHA-approved Lenders may not close in their
- own names or perform any functions in FHA Connection (FHAC).
- 26 iv. Required Forms
- The Lender must use forms and/or language in compliance with federal and state laws.
- 28 HUD does not provide forms for Title I Notes or Security Instruments.

- E. Title I Insured Programs
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1	v. Certifications
2 3	The individual selling the Manufactured Home must sign the certification on form <u>HUD-56001-MH</u> , Credit Application for Manufactured (Mobile) Home.
4 5	The Borrower and the Dealer must sign the certification on form <u>HUD-56002-MH</u> , <i>Placement Certificate for Manufactured Home</i> .
6	vi. Monthly Escrow Obligations
7 8 9 10 11 12 13	The Lender may collect a monthly amount from the Borrower that will enable them to pay their escrow obligations, as permitted by law. Payments into an escrow account may be collected only for the current year. The escrow account may be used to meet the following obligations when they become due: • hazard insurance premiums; • real estate taxes; • loan insurance premiums; • flood insurance premiums if applicable;
15 16 17 18	 Ground Rents if applicable; any item that would create liens on the Property positioned ahead of the FHA-insured Loan; and any other assessments as permitted by local law.
19	vii. Eligible Fees and Charges
20 21	The Lender must ensure that all fees charged to the Borrower comply with all applicable federal, state and local laws and disclosure requirements.
22 23	Funds for closing costs may not be applied towards the minimum downpayment requirement.
24 25 26 27	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.
28 29	The Lender may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.
30	The origination fee may be paid to the Lender or a sponsored TPO.
31 32	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

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A Lender may not allow the Dealer, or any party, other than the Borrower, to pay any Discount Points or other financing charges in connection with the loan transaction.

estate broker, loan broker or any other party involved in the transaction.

1	viii. Fees and Charges That May be Collected and Financed
2	(A)Standard
3 4 5 6	The fees and charges listed below that are 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.
7 8 9 10	The fees and charges that may be collected are limited to the following and amounts where indicated: • UFIP; • origination fees, not to exceed 2 percent of the Base Loan Amount, before
11	adding UFIP;
12 13 14	 state and local sales taxes paid by the Borrower; premiums paid by the Borrower for hazard insurance for the first year of the loan term, including premiums for flood insurance where applicable;
15	 credit report costs;
16	• the appraisal fee if required by FHA;
17	 fees for determining whether the Property is in an SFHA;
18	 a lender inspection fee up to \$125;
19 20 21	 reasonable and customary state or local government-imposed inspection fees, as required during the site placement of a Manufactured Home, but no more than \$500 may be financed into the Loan;
22 23	 recording fees, recording taxes, filing fees, and documentary stamp taxes; and such other items as may be specified by HUD.
24 25	The collection of Discount Points may not be financed and is not permitted unless the loan documents that the Discount Point(s) resulted in is a decrease to the interest rate.
26	(B) Required Documentation
27	The case binder must identify the fees and charges collected and financed into the
28	Loan. The Lender must include the invoice(s) for the inspection fee, together with
29	documentation supporting the government requirement for the inspection in the loan
30	package for both any pre-endorsement review that may be required and any insurance
31	claim submission.
32	ix. Fees and Charges that May be Collected, but May Not be Financed
33	(A) Standard
34	The following fees and charges, incurred by a Lender in connection with a
35	Manufactured Home Loan, may be collected from a Borrower, but may not be
36	included in the loan amount or otherwise financed or advanced by a Dealer, a

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manufacturer, or any other party to the loan transaction.

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4. Manufactured Home Loan Program

1 2 3	Discount Points may be paid by the Borrower, but only if the Lender can demonstrate a clear relationship between the Discount Points being charged and a compensating decrease in the interest rate on the Loan.
4 5	The fees and charges that may be collected and not financed are limited to the following and amounts where indicated:
6	 a fee for the services of a qualified Closing Agent to act on behalf of the
7	Lender in closing a Direct Loan transaction;
8	 premiums for credit life insurance or credit disability insurance;
9	 other fees necessary to establish the validity of a lien;
10	 title insurance costs for Manufactured Home Lot Loans or Combination
11	Loans;
12	 survey costs for Manufactured Home Lot Loans or Combination Loans;
13	• escrows:
14	o payments into an insurance escrow account for the current year for all
15	Title I Manufactured Homes; and
16	o tax escrows for the current year, only for Manufactured Home Lot Loans and Combination Loans;
17	
18	• a lender inspection fee greater than \$125 may be charged but not financed so
19	long as the Lender can document that the fee is reasonable and customary;
20	• a site placement inspection fee conducted by a state or local government that
21	is reasonable or customary, but no more than \$500 may be financed into the
22	Loan;
23	• costs for the following are permitted to be charged only for Manufactured
24	Home Lot Loans, and Combination Loans, where applicable:
25	o title insurance;
26	o survey; and
27	o payments into a tax escrow account for the current year; and
28	 such other items as may be specified by HUD.
29	(B) Required Documentation
30	The case binder must identify the fees and charges collected and not financed into the
31	Loan. The Lender must include the invoice(s) for the inspection fee, together with
32	documentation supporting the government requirement for the inspection in the loan
33	package for both any pre-endorsement review that may be required and any insurance
34	claim submission.
35	x. Disbursement Date
36 37	Disbursement Date refers to the date the proceeds of the Loan are made available to the Borrower.
38	The Disbursement Date must occur before the expiration of the credit documents.

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	xi. Disbursement of Loan Proceeds
2	(A) Standard
3	(1) Dealer Loan
4 5 6 7	The Lender must disburse the loan proceeds solely to the Dealer or to the Borrower or jointly to the Borrower and the Dealer or other parties to the transaction. The Lender must verify that loan proceeds are disbursed in the proper amount.
8	(2) Direct Loan
9 10 11	The Lender must disburse the loan proceeds solely to the Borrower or jointly to the Borrower and other parties to the transaction. The Lender must verify that loan proceeds are disbursed in the proper amount.
12	(B) Required Documentation
13 14 15	The Lender must obtain and include in the case binder the final Settlement Statement or other legal documentation detailing the transaction including fees, charges, and Disbursement.
16	xii. Per Diem Interest and Interest Credit
17 18	The Lender may collect per diem interest from the Disbursement Date to the date amortization begins.
19	Per diem interest must be computed using a factor of 1/365th of the annual rate.
20	xiii. Signatures
21 22	The Lender must ensure that the Loan, Note, and all closing documents are signed by all required parties in accordance with the <u>Borrower Eligibility</u> .
23	(A) Use of Power of Attorney at Closing
24 25 26	A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including the Disclosure Notice to Borrower.
27 28 29 30 31	 Unless required by applicable state law, as stated below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the Security Instrument or Note as the attorney-in-fact under a POA: the Lender, or any employee or Affiliate; the loan originator, or employer or employee;

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2	 the title insurance company providing the title insurance policy, the title agent closing the Loan, or any of their Affiliates; or
3	 any real estate agent or any person affiliated with such real estate agent.
4	Exception
5	Closing documents may be signed by an attorney-in-fact who is connected to the
6	transaction if the POA expressly authorizes the attorney-in-fact to execute the
7	required documents on behalf of a Borrower, only if the Borrower, to the satisfaction
8	of the attorney-in-fact in a recorded interactive session conducted via the Internet has:
9	 confirmed their identity; and
10	 reaffirmed, after an opportunity to review the required loan documents, their
11	agreement to the terms and conditions of the required loan documents
12	evidencing such transaction and to the execution of such required Loan by
13	such attorney-in-fact.
1.4	The Landau must obtain a convent form IUID 50001 MIL Condit Annii ari an fan
14 15	The Lender must obtain a copy of form <u>HUD-56001-MH</u> , <i>Credit Application for Manufactured (Mobile) Home</i> , signed by the Borrower or POA in accordance with
16	Signature Requirements for All Application Forms.
10	Signature Requirements for An Application Forms.
17	(B) Electronic Signatures
18	See Policy on Use of Electronic Signatures.
19	xiv. Note
20	(A) Definition
21	Note refers to any form of credit instrument commonly used in a jurisdiction to
22	evidence a Loan.
22	
23	(B) Standard
24	(1) Form
25	The Lender must ensure that the Note complies with all applicable state and local
26	requirements for creating a recordable and enforceable Loan, and an enforceable
27	Note. HUD does not provide Note forms or prescribe a particular Note format.
28	The Lender must ensure that the Note and all other documents evidencing the
29	loan transaction are in compliance with applicable federal, state and local laws.
30	The Note must:
31	 state the principal amount of the Loan and the annual rate of interest;
32	 bear the signature of each Borrower and of any co-maker or Cosigner; and
33	 be valid and enforceable against the Borrower and any co-maker or
34	Cosigner.

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1	(2) Interest Rate
2 3 4 5	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 must accrue from the date of the Loan, and be calculated on a simple interest basis.
6 7	Adjustable Rate Mortgage products are not permitted for FHA Title I Manufactured Home Loans.
8	(3) Temporary Interest Rate Buydown Requirements
9	Temporary interest rate buydowns are not permitted.
10	(4) Signature
11 12 13 14 15	The Borrower and any co-maker or Cosigner 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 Loan. Such date should be entered on the Note when Disbursement occurs.
16	(5) Payments on the Loan
17 18 19	The Note must 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.
20	(6) Default Provision
21 22	The Note must contain a provision for acceleration of maturity, at the option of the holder, upon a monetary Default by the Borrower.
23	(7) Late Charges
24 25 26 27 28 29	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 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 case binder if an insurance claim is made.
30	(a) Amount of Late Charge
31 32	The Late Charge must not exceed the lesser of 4 percent for each installment of P&I, or the maximum amount permitted by applicable state law.

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1	(b) Method of Payment
2 3 4	Payment of any Late Charge cannot be deducted from the monthly payment of P&I. Late payment fees must be calculated and shown as an additional charge to the Borrower.
5	(c) Daily Interest in Lieu of Late Charges
6 7	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.
8	(8) Prepayment Provision
9 10	Borrowers cannot be charged a prepayment penalty on any FHA Title I Manufactured Home Loan product.
11	(9) Recourse from Dealer
12 13 14 15 16 17 18 19 20 21 22 23 24	The Dealer and Title I Lender may agree to require partial or full recourse of a provision in the loan documents against the Dealer, to reduce or eliminate the Lender's loss in the event of foreclosure or repossession. Recourse provisions in the loan documents may provide for: • a Default occurring within a period of not more than three years from the date of the Loan; • reimbursement from the Dealer for: • a fixed percentage of the unpaid amount of the loan obligation, after deducting the proceeds from the sale of the Property; and • any amounts received or retained by the Lender after the date of Default; or • a maximum liability to the Dealer of 100 percent of the unpaid amount of the loan obligation prior to such deductions. xv. Security Instrument
26	(A) Definition
27 28 29	Security Instrument refers to any legal instrument that is commonly used in a jurisdiction in connection with a Loan secured by a Manufactured Home and/or Real Property.
30	(B) Standard
31 32 33	A Manufactured Home Loan must be secured by a recorded lien on the home (or lot or home and lot, as appropriate), its furnishings, equipment, accessories, and appurtenances.

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The lien must be a first lien, superior to any other lien on that Property, and evidenced by a properly recorded financing statement, a properly recorded Security Instrument executed by the Borrower and any other Owner of the Property, or another acceptable instrument, such as a certificate of title issued by the State and containing a recitation of the Lender's lien interest in the Manufactured Home.

The Lender must ensure 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.

For a <u>Combination Loan</u>, the Lender may take a security interest in the Manufactured Home as Personal Property and concurrently place a real property lien on the land. FHA permits Manufactured Homes to be split from the land and secured separately.

xvi. Post-Disbursement Unit Inspection

Dealer-originated sales of Manufactured Homes require the Lender, or an agent of the Lender who is not a 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 Disbursement Date. The inspection is to verify and document the following:

- 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 all plumbing, mechanical and electrical systems are fully operational.

g. Post-Closing and Endorsement

i. Lender Pre-Endorsement 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.

1	ii.	Procedures for Endorsement
2		(A) Standard
3 4		Immediately after closing and the Disbursement of loan funds, Lenders must submit each Loan to HUD for a post-closing, pre-endorsement approval.
5 6		HUD will examine each Loan after closing and prior to endorsement to ensure that the necessary documents have been provided and system data fields are completed.
7 8		The post-closing, pre-endorsement review is required for both DE Lenders and non-DE Lenders.
9 10		Non-DE Lenders must submit Loans for the post-closing, pre-endorsement review in addition to the required pre-closing review.
11 12 13		To initiate the insurance endorsement process, the Lender must complete the Title I Loan Insurance Application in <u>FHAC</u> and compile the case binder, with all of the necessary documents.
14		The Loan must be current to be eligible for endorsement.
15		(B) Submitting the Loan for Endorsement
16 17		Instructions for specific requirements for data format and delivery to FHAC are found in the FHA Connection Title I User Guide.
18 19 20 21 22 23 24 25 26		 The Lender must: complete the Insurance Application screen in FHAC; remit the UFIP to FHA in a lump sum within 10 Days after the date of loan settlement or the Disbursement Date, whichever is later; submit evidence of assignment of the case for endorsement in the name of the originating Lender, if applicable; submit evidence of case number transfer, if applicable, to another Lender prior to closing; and submit case binder to HUD for post-closing endorsement review.
27		(C) Complete Insurance Application in FHAC
28 29		Once the Loan is closed, the Lender must access FHAC to complete the Application for Insurance screen and pay the UFIP.
30 31 32 33 34		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:

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1	 general loan information
2	 Lender information
3	 credit/underwriting information
4	 Borrower information
5	 address information
6	(D) Upfront Insurance Premium Remittance
7 8	Title I premium charges are remitted to HUD via the Department of the Treasury's Pay.gov collection service, which may be accessed via FHAC.
9 10 11 12	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.
13	The Lender must perform a one-time setup, using FHAC, which includes providing
14	information regarding their bank account. This information is stored in FHA's
15	database and is used to establish an electronic cash flow account from which the
16	UFIP and annual premium charges will be paid.
17	HUD requires the <u>UFIP</u> to be paid within 10 Days of the Loan Disbursement.
18	(E) Late UFIP Payments
19	HUD views the owner of the Loan legally responsible for the payment of all valid
20	premium charges. If the Lender uses a Servicer to handle this function, HUD can
21	establish billing for a Servicer, but the Lender remains the owner of the lender
22	portfolio.
23	The Lender is assessed a penalty charge of 4.0 percent of the amount of any premium
24	payment not received by HUD by the due date. Premium payments received from a
25	Lender more than 30 Days after the due date are also assessed daily interest at the
26	United States Treasury Current Value of Funds Rate. However, a Lender is not
27	required to pay a penalty charge or daily interest if HUD fails to issue a billing
28	statement for annual premium charges in a timely manner.
29	(1) 10-30 Days Late
30	A one-time late charge of 4 percent is assessed on an UFIP payment received
31	more than 10 Days after the Disbursement Date. The Lender must pay the late fee
32	before FHA will endorse the Loan for insurance.
33	(2) More than 30 Days Late
34	If the UFIP is paid more than 30 Days after the Disbursement Date, the Lender
35	will be assessed the late fee plus interest. The interest rate is the U.S. Department

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1 2 3	of the Treasury's <u>Current Value of Funds Rate</u> in effect when the UFIP payment is received. The Lender must pay both charges before FHA will endorse the Loan for insurance.
4	(F) Printout of Case Number Assignment Screen
5 6	The Lender must include a printed copy of the case number assignment screen showing originating Lender if applicable.
7	(G)Submitting Loans for Post-Closing/Endorsement Review
8 9	Lenders must submit loan documents to the attention of MH Post-Closing Endorsement Review at the <u>FOC</u> .
10 11 12 13	During the post-closing 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.
14	(H)Timely Endorsement
15 16 17 18	The Lender must report each Loan for insurance in FHAC within 30 Days from the date of the Loan's Disbursement or purchase from a Dealer or another Lender. Any Loan refinanced under this part must similarly be reported on the prescribed form within 30 Days from the date of refinancing.
19	(I) Initial Request for Endorsement
20 21 22	The insurance application request is considered complete once HUD has received the case binder, the UFIP has been paid, and the insurance application on FHAC has been completed and has passed all system validations.
23 24 25 26	The date a case binder is received is based on the date the FOC receives the required lender 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 lender documentation was received by accessing the Case Status screen on FHAC.
27	(J) Late Request for Endorsement
28 29 30	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.
31	(K)Late Endorsement Certification
32 33	Lenders must certify, via FHAC, that all Loans reported for insurance after 30 Days from the Disbursement are not currently in Default. A certification window

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automatically appears when a Loan is reported past the deadline and must be checked 1 2 in order to continue the insurance submission process. 3 At the time of the certification the Lender is confirming that: 4 no Loan Payment was currently past due more than 30 Days; and 5 the Lender or its agents did not provide the funds to bring and/or keep the Lender current or to bring about the appearance of an acceptable payment 6 7 history. (L) HUD Determination of Endorsement 8 9 HUD will review the Lender's certification and make a determination to accept or 10 reject the request. HUD will endorse the Loan provided the final review indicates that the degree of risk to HUD has not increased since the time of closing. A Loan that is 11 in Default when submitted for endorsement will not be insured, except in those 12 13 instances where it can be demonstrated that HUD was responsible for a delayed 14 request for endorsement. 15 (M) Loan Insurance Certificate Once determined as acceptable, HUD will endorse the Loan via FHAC and issue a 16 17 Loan Insurance Certificate (LIC). The LIC will be made available to the Lender 18 through FHAC. The LIC must be printed and retained by the Lender in the case 19 binder. 20 A Loan is not insured until HUD issues an LIC for the Loan. The LIC is an electronic document generated by HUD via FHAC and is documentary evidence of the 21 22 insurance. 23 (N) Assembly of Case Binder 24 The Lender must prepare and submit a uniform case binder to the FOC. (1) Uniform Case Binder Requirements 25 The Lender must ensure that all case binders are complete, meet FHA 26 27 specifications, and contain all required documents arranged in the correct stacking 28 order. 29 Lenders must submit loan documents to the attention of MH Pre-Closing Review 30 at the FOC. 31 HUD requires the following documentation to be included in the case binder. 32 These documents may be sent in either hard copy or electronic format. HUD does 33 not require a specific electronic format but reserves the right to reject electronic 34 documents if the format is not compatible with HUD systems or if otherwise not 35 readable by HUD.

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(2) Case Binder Stacking Order

The Lender must ensure that all required documents, as applicable, are arranged in the stacking order chart below.

Left Side
Purchase Transactions
Retail Purchase/Installment Contract
Manufacturer's Invoice (newly constructed)
Invoices for options/installation costs
Manufacturer's warranty
Rental lease for the lot, if applicable
Appraisal and Related Documents
Manufactured home appraisal (existing unit)
Placement Certificate, HUD-56002-MH
Site Suitability Documentation
Life of Loan Flood Certification
Evidence of Flood Insurance (required if Property is in flood zone A or V.)
LOMR, LOMA, Elevation Certificate
Evidence of hazard insurance (showing amount of coverage and the amount
of the annual premium if the premium was financed)
Right Side
Underwriting Documentation
Transfer of Note form HUD-27030
Underwriter's worksheet with debt ratio calculations, and any notes,
explanations, clarifications, or attachments
Note or assigned Retail Installment Contract
Security Instrument for new first lien
Secondary Lien Exhibits
Settlement Statement or similar legal document
Lender's worksheet or other documents with a calculation/itemization of the
amount charged and financed
FHA/RESPA/TILA Required Disclosures
Power of Attorney
Credit Application for Manufactured (Mobile) Home
HUD-56001-MH
Notice to Borrower of HUD's Role
Refinance Documentation
Payoff Statement(s) for all liens to be satisfied with Loan proceeds
Borrower Identification Documentation
Proof of identity verification
Proof of SSN verification
Legal residency status documents for non-U.S. citizens – Employment
Authorization Document
Credit Alert Verification Reporting System (CAIVRS) clearance

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This is a DRAFT document for posting on the Drafting Table to collect industry feedback. The document will undergo Departmental Clearance again prior to final publication. See cover page of document for more info.

Credit and Capacity Documentation
Tri-Merged Credit Report(s) (TRMCR), and non-traditional references, if
applicable
Verification of Mortgage or rent
Explanation for material credit inquiries within 90 Days and any existing
credit problems
Housing Counseling Certificate(s)
Source of Funds Verification
Verification of non-gift source of funds
Verification of Gift source of funds
Income and Employment Documentation
Verification of employment and income grouped by Borrower
Lender's contact information (Name, email, phone number)

(O)Ineligible for Insurance

(1) 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). 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 Application for Insurance screen and resubmit the insurance request for review. If HUD issues an NOR and the Lender chooses not to resubmit the case for review, the Lender must report this to HUD via FHAC. The Lender must also obtain a refund of the UFIP paid to HUD and apply the refund to the principal balance of the Lender.

(2) Final Rejection of Endorsement

If HUD determines that the case is ineligible for endorsement based on a defect that cannot 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 that make the Loan ineligible for FHA insurance. The Lender must also obtain a refund of the UFIP paid to HUD and apply the refund to the principal balance of the Loan.

(3) Denied or Cancelled Loans

Lenders must report to HUD, through FHAC, the denial or cancellation of all Loans for which a Title I case number has been issued.

E. Title I Insured Programs

4. Manufactured Home Loan Program

iii. Post-Endorsement Technical Reviews

- 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 described below.

(A) Conforming

A Loan receives a rating of conforming when the lender 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 of deficient when the lender review identifies documentation errors or omissions that HUD expects can be corrected by the Lender in future submissions for insurance endorsement. 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.

Lenders who consistently submit deficient files may be subject to increased postendorsement 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 HUD against any loss associated with the Loan. Demands for indemnification may be made by the Director of the Quality Assurance Division, by the Office of Lender Activities and Program Compliance or by the Mortgagee Review Board (MRB).

If indemnified, the Loan will 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.

E. Title I Insured Programs

4. Manufactured Home Loan Program

(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 HUD.

iv. Inspection Requirements for Loans Pending in Presidentially-Declared Major Disaster Areas

All Properties with Loans in process or pending endorsement in Presidentially-Declared Major Disaster Areas (PDMDA) must have a damage inspection report that identifies and quantifies any dwelling damage. The report must be dated after the Incident Period (as defined by FEMA). FHA does not require a specific form for a damage inspection report.

Streamline Refinances are allowed to proceed to closing and/or endorsement without any additional requirements. Lenders must insure that any damage identified on the report is repaired and that the home is restored to pre-disaster condition prior to submitting for insurance endorsement.

FHA does not require that utilities are on at the time of this inspection if they have not yet been restored for an area.

h. Programs and Products

i. Manufactured Home Lot Loans and Combination Loans

The FHA Title I Manufactured Home Loan Program also insures Manufactured Lot Loans and Combination Loans. Manufactured Home Lot Loans and Combination Loans are subject to the same policies and guidelines as Manufactured Home Loans. Policies and guidelines that apply specifically to Manufactured Home Lot Loans or Combination Loans are detailed throughout this section.

ii. 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 PUD. 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.

Manufactured Home Lot Loans

A Manufactured Home Lot Loan is used to purchase a parcel of real estate to be used as a site for placement of a Manufactured Home. A Manufactured Home Lot Loan may

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2 3	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.
4	(A) Definition
5	Manufactured Home Lot Loan refers to a Loan for the purchase or refinancing of a
6	portion of land acceptable to HUD as a manufactured home lot. The manufactured
7	home lot may consist of platted or unplatted land, a lot in a recorded or unrecorded
8	subdivision or in an improved area of such subdivision, or a lot in a PUD. A
9	manufactured home lot may also consist of an interest in a manufactured home
10 11	Condominium Project (including any interest in the common areas) or a share in a cooperative association which owns and operates a manufactured home park.
12	(B) Eligibility Requirements
13	The following eligibility requirements apply to Manufactured Home Lot Loans:
14	• ownership of the lot must be held in Fee Simple, except when the lot consists
15	of a share in a cooperative association which owns and operates the
16	manufactured home community; and
17	 the Manufactured Home must be placed on the lot and occupied as the
18	Borrower's Principal Residence within six months after the date of the Loan.
19	(C) Maximum Loan Amounts
20	The loan amount must not exceed the Maximum Loan Amount restrictions for:
21	<u>Nationwide Loan Limits;</u>
22	 minimum downpayment requirements;
23	 Minimum Decision Credit Score limitations;
24	maximum LTV; and
21 22 23 24 25 26	• LTV calculations applicable to the loan transaction type for the manufactured
26	home lot.
27	The UFIP may be added to the Base Loan Amount, not to exceed the Nationwide
28	Loan Limit.
29	The maximum Base Loan Amount is determined by applying the appropriate LTV
30	factor (95 percent or 90 percent) to the lesser of:
31	 the appraised value of an already developed lot plus financeable fees and
32	charges; or
33	• the purchase price of the lot plus development costs plus financeable fees and

charges.

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- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	(D) Loan Term
2 3	The maximum term for a Manufactured Home Lot Loan must not exceed 15 years and 32 Days from the date of the Loan.
4	iii. Combination Loan
5 6	A Combination Loan is used to purchase a Manufactured Home and a parcel of real estate on which the unit will be placed in a single loan transaction.
7	The lot must comply with HUD's requirements for a suitable manufactured home site.
8 9 10	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 Manufactured Home Lot Loan with the acquisition of a Manufactured Home.
11	(A) Eligibility Requirements
12 13	In addition to the guidelines specified in <u>Manufactured Home Lot</u> , the following requirements apply to Combination Loans.
14	(1) Lot Ownership
15 16 17	Title for the lot must be owned by the Borrower and held in Fee Simple, except when the lot consists of a share in a cooperative association which owns and operates the manufactured home community.
18	(2) Home Ownership
19 20	The Manufactured Home must be treated as Personal Property or Chattel when it retains its vehicle title (or certificate of title).
21 22 23	Title to the Manufactured Home must be held in Fee Simple if the Manufactured Home is classified as realty by the State or locality in which the Property is located, and the vehicle title is surrendered and cancelled.
24	(3) Principal Residence Only
25 26	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.
27	(4) Maximum Loan Limit
28 29 30 31	The loan amount must not exceed the Maximum Loan Amount restrictions for: Nationwide Loan Limits; minimum downpayment requirements; Minimum Decision Credit Score limitations;

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2 3	 maximum LTV; and LTV calculations applicable to combination Manufactured Home and lot property types, which is described below.
4 5	The maximum loan amount for a Combination Loan is further limited by the cost or value of the lot and home as follows:
6 7 8	(1) The <u>minimum downpayment</u> and maximum LTV requirements must be calculated using the total purchase price of the Manufactured Home and lot.
9 10	(2) The total purchase price of a Manufactured Home and lot may include <u>Eligible Options and Accessories</u> .
11 12 13	(3) If the Borrower already owns a Manufactured Home or a lot on which a Manufactured Home is to be placed, the Borrower's equity in such a home or lot may be accepted in lieu of full or partial cash downpayment.
14 15 16	(4) When equity in a home or lot is used to meet any portion of the downpayment requirement, the Loan may not allow any cash back to the Borrower.
17 18	(5) The UFIP may then be added to be Base Loan Amount, provided that the Total Loan Amount does not exceed the Nationwide Loan Limit.
19	(B) Loan Term
20 21	The maximum loan term for a single unit Combination Loan may not exceed 20 years and 32 Days from the date of the Loan.
22 23	The maximum loan term for a multi-unit Combination Loan may not exceed 25 years and 32 Days from the date of the Loan.
24	(C) Interim Interest on Lot
25 26	The Lender may not charge the Borrower interim interest on the money advanced to pay for the lot.
27	(D) Security Instrument
28 29 30 31	In addition to compliance with the <u>security instrument standards</u> , the Security Instrument 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.

1	iv. Title I Refinance Transactions
2	(A) Definition
3 4 5 6	A Refinance Transaction establishes a new Loan to pay off the existing debt for a Borrower with legal title to the subject Property. The refinance Loan may also advance additional funds for the purchase of a home or lot, which is also referred to as a Combination Loan.
7	(B) Types of Title I Refinances
8	(1) Cash-Out or Cash Back (Not Permitted)
9 10	A Cash-Out Refinance is a refinance of any Loan that advances additional credit to the Borrower, or for which the loan proceeds are used for ineligible purposes.
11 12	A Cash Back Refinance or a transaction that provides cash back to the Borrower is not permitted for the Manufactured Home Loan program.
13	(2) No Cash-Out
14	(a) Title I to Title I Refinance
15 16 17	An existing Title I insured Manufactured Home Loan may be refinanced with or without an advance of additional funds that is used to add an eligible property type.
18	Title I Refinances are categorized into three possible refinance types.
19	(i) Simple Title I Refinance
20 21 22 23	A Simple Title I Refinance refers to a no cash-out refinance of an existing Title I insured Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan. The proceeds of a Simple Refinance are exclusively used to pay off the existing debt plus eligible fees and charges.
24	(ii) Streamline Refinance (Non-Credit Qualifying)
25 26 27	A Streamline Title I Refinance refers to the refinance of an existing Title I insured Loan for which the Lender is not required to perform credit or capacity analysis or obtain an appraisal.
28	(iii) Title I Refinance With Advance of Funds
29 30 31	An existing Title I insured Manufactured Home Lot Loan or Manufactured Home Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit or lot.

- E. Title I Insured Programs
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1	This type of refinance will result in a new <u>Combination Loan</u> .
2	(b) Conventional to Title I Refinance
3 4 5	Proceeds from a new Title I insured Loan may be used to pay off an Existing Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan that is not insured by HUD.
6 7	Conventional to Title I Refinances are categorized into two possible refinance types.
8	(i) Regular Conventional to Title I Refinance
9 10 11 12 13	An existing conventional Manufactured Home Loan, Manufactured Home Lot Loan, or Combination Loan that was not insured by HUD may be refinanced with a new Title I insured Loan. The proceeds of a regular refinance are exclusively used to pay off the existing debt plus eligible fees and charges.
14	(ii) Conventional Refinance with Advance of Funds
15 16 17 18 19	An existing conventional Manufactured Home Loan may be refinanced with an advance of additional funds to purchase a lot on which to place the home. Similarly, an existing conventional Manufactured Home Lot Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit.
20	This type of refinance will result in a new <u>Combination Loan</u> .
21	(C) FHA-Insured to FHA-Insured Refinances
22	FHA-Insured to FHA-Insured refinances may be used with any refinance type.
23	(D) Borrower Occupancy Requirements
24	(1) Standard
25	Refinances may be used only for Principal Residences.
26	(2) Required Documentation
27 28 29	The Lender must review the Borrower's employment documentation or obtain utility bills to evidence that the Borrower currently occupies the Property with a manufactured unit as their Principal Residence.

E. Title I Insured Programs

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4. Manufactured Home Loan Program

(E) Disclosure To Borrower: "Notice to Borrower of HUD's Role"

For each new Title I insured Loan, a <u>Notice to Borrower of HUD's Role</u> must be issued and acknowledged by all Borrowers.

(F) Premium Charges

Every new Title I Loan requires payment of a UFIP charge, and annual premium.

(G)Loan Maturities

The maximum term for the new refinance must not exceed:

Loan Type	Maximum Loan Term
Manufactured Home Loan	20 years and 32 Days
Manufactured Home Lot Loan	15 years and 32 Days
Combination Lot and Single Unit	20 years and 32 Days
Manufactured Home	
Combination Lot and Multi-unit	25 years and 32 Days
Manufactured Home	

(H)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 must not exceed the maximum term permitted for a new Loan of the same type.

(I) Existing Loan Payoff Amount

(1) Standard

A loan payoff statement is required on all Title I Loans secured by the Property that will be paid off with the new Title I Loan.

(2) Required Documentation

The Lender must obtain the payoff statement for all existing Loans.

(J) Note and Security Requirements

(1) Standard

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.

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	(2) Required Documentation
2	The Borrower(s) must execute a new Note.
3 4 5	The Lender must obtain and record a new Security Instrument and ensure a release of the original lien unless state law permits a renewal and extension of the original lien.
6	(K)Original Title I Case Binder
7 8	For a Title I to Title I Refinance, copies of all documents pertaining to the original Title I Loan must be retained in the refinance case binder.
9	(L) Conditions for Refinance by Loan Type
10	(1) Streamline Refinance (Non-Credit Qualifying)
11 12	Streamline Refinance may be used when the proceeds of the Loan are used to extinguish an existing Title I insured Loan with first place lien.
13 14 15	An Existing Manufactured Home Loan and/or Manufactured Home Lot Loan that is not Title I insured is not eligible for a Non-Credit Qualifying Streamline Refinance transaction.
16	(a) Lender of Record Only
17 18 19 20 21 22 23	Only the Lender that 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 the Servicing Title I Manufactured Home Loan Program section.
24	(b) Co-maker or Cosigner on Existing Loan
25 26	The Lender must require any co-makers or Cosigners on the original Note to be obligated on the refinance Note.
27 28	To release a co-maker or Cosigner from liability on an existing Note, the Lender must obtain pre-approval from HUD.
29	(c) Previous Assumption
30 31 32	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. Title I Insured Programs
- 4. Manufactured Home Loan Program

1	(d) Maximum Loan Amount
2 3	The maximum loan amount of a Streamline Refinance is limited to the cost of prepaying the existing Loan, plus eligible fees and charges, and the new UFIP.
4 5 6	An 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 UFIP may be added, not to exceed the Nationwide Loan Limits .
7	(e) Credit Analysis
8 9	Lenders are not required to conduct credit or capacity analysis or obtain an appraisal.
10	(2) Simple Title I Refinance
11 12 13	An existing Title I insured Manufactured Home, Lot or Combination Loan may be refinanced to pay off an existing Title I Loan, without an advance of additional funds or cash back to the Borrower.
14	(a) Lender of Record Only
15 16 17 18 19 20	Only the Lender that owns the Title I Loan according to HUD's records may 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 Simple Refinance transaction. The sale, assignment or transfer of the Loan must be reported to HUD in compliance with form <u>HUD-27030</u> , <i>Title I Transfer of Note</i> requirements.
21	(b) Previous Assumption
22 23 24	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.
25	(c) Maximum Loan Amount
26 27 28	The maximum loan amount of a Simple Title I Refinance is limited to the cost of prepaying the existing Loan, plus eligible fees and charges, and the new UFIP.
29	Cash back to the Borrower is not permitted.
30	(d) Loan in Default
31	The existing Title I Loan must not be in Default.

1	(e) Credit Qualification
2 3 4	Lenders must underwrite the Simple Title I Refinance Loan to ensure compliance with Title I credit and capacity requirements. An appraisal is not required.
5	(f) Original Case Binder
6 7	Copies of all documents pertaining to the original Title I Loan must be retained in the case binder of the refinanced Loan.
8	(3) Title I Refinance With Advance of Funds
9 10 11	An existing Title I insured Manufactured Home Loan or Manufactured Home Lot Loan may be refinanced with an advance of additional funds to purchase a manufactured home unit or lot.
12	This type of refinance will result in a new Combination Loan.
13	(a) Lender of Record Only
14 15 16 17 18 19 20	Only the Lender that owns the Title I Loan according to HUD's records may 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 Title I refinance with advance of funds transaction. The sale, assignment or transfer of the Loan must be reported to HUD in compliance with form <u>HUD-27030</u> , <i>Title I Transfer of Note</i> requirements.
21	(b) Loan in Default
22	The existing Title I Loan must not be in Default.
23	(c) Previous Assumption
24 25 26	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.
27	(d) Maximum Loan Amount
28	(i) Base Loan Amount
29 30	The cost of the UFIP charge may be added to the Base Loan Amount, not to exceed the <u>Nationwide Loan Limits</u> for the transaction.
31 32	An advance of loan proceeds or cash back to the Borrower is not permitted.

1	(ii) Refinance of a Home Loan with Advance to Purchase a Lot
2 3 4 5 6 7	 The maximum base Combination Loan amount is limited to: the existing debt on the Manufactured Home Loan; plus Eligible Fees and Charges associated with the new Loan; plus the lesser of: the purchase price of the lot and any development costs; or the appraised value of the lot.
8 9	(iii)Refinance of a Manufactured Home Lot Loan with Advance of Funds to Purchase New Home
10 11 12 13 14 15 16 17 18	The maximum base Combination Loan amount is limited to the existing debt on the Title I Manufactured Home Lot Loan, plus the sum of the following items eligible to be financed for the purchase of a New Manufactured Home multiplied by the appropriate LTV factor (95 percent or 90 percent): • 130 percent of the sum of the wholesale (base) price of the home plus eligible itemized options, including the charge for freight, as detailed on the Manufacturer's Invoice or found on the Wholesale (Base) Price List; • sales tax to be paid by the Borrower, as detailed in the retail sales
20 21 22 23 24 25 26 27	 purchase 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); Dealer's actual cost for skirting, garage, carport, patio, or other appurtenance, and for the purchase and installation of a central air conditioning system or heat pump (if not installed by the manufacturer); and fees and charges that may be financed.
29 30	(iv) Refinance of a Title I Manufactured Home Lot Loan with Advance of Funds to Purchase Existing Home
31 32 33 34 35	 The maximum Base Loan Amount is limited to: the existing Title I debt on the Manufactured Home Lot Loan; plus <u>Eligible Fees and Charges</u> associated with the new Loan; plus the appropriate LTV Factor (95 or 90 percent) applied to the lesser of:
33 36 37 38 39 40	 the purchase price of the home, including costs to the Borrower for all items described in the purchase contract and any Eligible Options as documented in the file; or the appraised value of the home as described in the sales contract, including any Eligible Options itemized in the sales contract or documented in the file.

- E. Title I Insured Programs
- 4. Manufactured Home Loan Program

1 2 3	The lot portion of the calculation must be based on the cost of prepaying the Existing Manufactured Home Lot Loan, not the appraised value or original purchase price value.
4	(e) Underwriting and Documentation Requirements
5 6 7 8	The refinance of a Manufactured Home Loan or Manufactured Home Lot Loan to a new Combination Loan will increase the loan amount and be subject o all other underwriting and processing requirements for the Manufactured Home Loan program.
9	(f) Appraisal Requirements
10 11	For refinances with advance of funds to purchase a lot, the Lender must obtain a HUD-approved appraisal of the lot.
12	(g) Original Case Binder
13 14	Copies of all documents pertaining to the original Title I Loan must be retained in the case binder of the refinanced Loan.
15	(h) Placement Certificate
16 17	A new form <u>HUD-56002-MH</u> , <i>Placement Certificate for Manufactured Home</i> is required for the addition of the manufactured home unit to the lot.
18	(4) Conventional to Title I Refinance
19 20 21	An existing conventional Manufactured Home Loan, Manufactured Home 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.
22	(a) Loan Default
23	The original Loan must not be in Default.
24	(b) Existing Borrowers Must Be Retained
25 26	The Lender must require all Borrowers, including co-makers or Cosigners, on the original Note to be obligated on the refinance Note.
27	(c) Maximum Loan Amount
28	(i) Simple Conventional to Title I Refinance
29 30 31	The maximum Base Loan Amount for a Simple Conventional to Title I Refinance is the lesser of the cost of prepaying the existing Loan or the appraised value of the Property.

E. Title I Insured Programs

4. M	anufactured	Home	Loan	Program
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1 The cost of the UFIP charge may be added to the Base Loan Amount, not to exceed the Nationwide Loan Limits. 2 3 An advance of loan proceeds or cash back to the Borrower is not 4 permitted. 5 (ii) Refinance with Advance of Funds to Purchase a Lot The maximum base Combination Loan amount is limited to: 6 7 the existing debt on the Manufactured Home Loan; plus 8 Financeable Fees and Charges associated with the new Loan; plus 9 the lesser of: 10 o the purchase price of the lot and any development costs; or o the appraised value of the home and lot as determined by a 11 12 HUD-approved appraisal. (iii) Refinance with Advance of Funds to Purchase a Home 13 To determine the maximum Base Loan Amount for a refinance of a 14 conventional Loan and purchase of a New Manufactured Home, the 15 Lender must follow the same calculation requirements as described for a 16 17 Refinance of a Title I Manufactured Home Lot Loan with Advance of Funds to Purchase New Home. 18 19 To determine the maximum Base Loan Amount for a refinance of a 20 conventional Loan and purchase of an Existing Manufactured Home, the Lender must follow the same calculation requirements as described for a 21 Refinance of a Title I Manufactured Home Lot Loan with Advance of 22 Funds to Purchase Existing Home. 23 24 (d) Placement Certificate A new form HUD-56002-MH, Placement Certificate for Manufactured Home, 25 is required for the addition of the manufactured home unit to the lot. 26 27 (e) Underwriting and Documentation Requirements 28 All Conventional to Title I Refinance Loans are subject to all other 29 underwriting and processing requirements for the Manufactured Home Loan program. Borrowers on the refinanced Loan must demonstrate acceptable 30 31 credit and meet qualifying ratios. 32 (f) Appraisal Requirements 33 For a Simple Conventional to Title I Refinance, the Lender must obtain an 34 appraisal on the secured Property that complies with appraisal requirements.

- F. Appraiser and Property Requirements for Title I
- 1. Appraiser Qualifications

For a Conventional Refinance with Advance of Funds to purchase a lot, the 1 2 Lender must obtain a HUD-approved appraisal of the home and lot. 3 An appraisal is not required for refinance with advance of funds to purchase a new home. However, an appraisal must be obtained when the advance of 4 5 funds purchases an existing home. 6 (g) Co-maker or Cosigner on Existing Conventional Loan 7 The Lender must require the co-makers or Cosigners on the original Note to be obligated on the refinance Note. 8 9 To release a co-maker or Cosigner from liability on the Note, the Lender must 10 obtain pre-approval from HUD. 11 (h) Previous Assumption A Loan that was assumed may be refinanced only if the original Borrower and 12 any intervening assumptors were released from liability. 13 (M) Refinancing Title I Loans that Were Originated on or Prior to June 1, 2009 14 The 10 percent portfolio reserves limitation applies only to Loans originated prior to 15 June 1, 2009 (implementation date of the FHA Manufactured Housing Loan 16 17 Modernization Act of 2008) and will not apply to refinanced Loans. 18 Loans originated prior to June 1, 2009 and refinanced on or after June 2009 will be 19 removed from the Lender's portfolio insurance reserve account and will be individually insured based on the credit policies and insurance premiums (upfront and 20 annual) in effect at the time of refinance. 21 22 (N) Insurance Processing 23 Refinanced Loans must be submitted to HUD for insurance endorsement within 30 24 Days after loan Disbursement as outlined in Procedures for Endorsement. When 25 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. 26 27 HUD will also prorate any unpaid installments on the insurance charge between the old Loan and the new Loan. Lenders are cautioned not to erroneously submit a 28 29 refinanced Loan as a new Loan. 30 F. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE I 31 1. Appraiser Qualifications 32 When an appraisal is required, the Lender must engage a Chattel Appraiser who is not engaged

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in the business of manufactured home retail sales.

- F. Appraiser and Property Requirements for Title I
- 2. Appraiser Requirements

2. Appraiser Requirements

- 2 All Appraisers must comply with the Uniform Standards of Professional Appraisal Practice
- 3 (USPAP), including the Competency Rule, when conducting appraisals of Properties classified
- 4 as Personal Property or Real Property. Certified real estate Appraisers providing appraisal
- 5 services for land parcels and/or a real property interest in the Manufactured Home will follow
- 6 USPAP Standards One and Two when developing and reporting the results of the appraisal. All
- 7 Appraisers providing services involving Manufactured Homes where the property interest is
- 8 Chattel (or Personal Property) will follow USPAP Standards Seven and Eight when developing
- 9 and reporting the results of the appraisal.
- 10 The Appraiser must include evidence that the Appraiser meets one of the qualification standards,
- such as a copy of a current certification, a printed web page or other documentation showing that
- the Appraiser is:

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- MHV certified on the MHV registry; or
 - a certified real estate Appraiser who is active on the FHA Appraiser Roster.
- Requirements for Appraisers of real estate interests and Chattel (or personal property interests)
- are found in the Other Participants Appraisers section of Doing Business with FHA in the SF
- 17 Handbook.

18 **3.** Commencement of the Appraisal

- 19 The Appraiser must obtain all of the following from the Lender before beginning an appraisal:
- a complete copy of the executed sales contract for the sale of the Manufactured Home
- and land, or, if the Manufactured Home and land are being purchased separately, the
- 22 executed contract for each;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
 - any other legal documents contained in the case binder; and
- a point of contact and contact information for the Lender so that the Appraiser can communicate any non-compliance issues.

4. Analysis and Reporting Requirements

- 29 The Appraiser must observe the entire Property that is the subject of the appraisal and report all
- 30 characteristics of the Property that are relevant to value conclusion. The Appraiser must report
- 31 the condition of the Property.

32 **Inspection Requirements**

- 33 The Appraiser must inspect the subject Property. If the Appraiser is appraising a real estate
- interest, the Appraiser must inspect the subject site. If the Appraiser is appraising a chattel
- interest, the Appraiser must inspect the Chattel. The conclusions about the observed conditions
- of the Property contribute to the rationale for the opinion of value.

- F. Appraiser and Property Requirements for Title I
- 5. Valuation Development Chattel

5. Valuation Development – Chattel

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- There are three valuation approaches as applied to one-to four-residential unit Properties and
- 4 Manufactured Homes:
- sales comparison approach;
 - cost approach; and
- 7 income approach to value.
- 8 The Appraiser must consider and attempt all approaches to value and must develop and
- 9 reconcile each approach that is relevant. If the Appraiser cannot find sufficient data to
- 10 complete one or more of the approaches to provide a credible valuation, the Appraiser must
- explain the lack of inclusion of that approach and the effect on the credibility of the appraisal
- 12 analysis.

b. Required Analysis

- 14 The Appraiser must obtain credible and verifiable data to support the application of the three
- approaches to value.
- The Appraiser must perform a thorough analysis of the characteristics of the market,
- including the supply of properties that would compete with the subject and the corresponding
- demand.
- If a real property interest is being appraised, the Appraiser must perform a highest and best
- use analysis of the Property using all four tests and report the results of that analysis.
- The application of the approaches to value requires that the Appraiser obtain credible and
- verifiable data to support each approach. Data must be drawn from a collection and storage
- database that is wholly independent from any individual or organization that has an interest
- in the Property being appraised.

25 6. Valuation Development – Borrower-Owned Land

a. **Definition**

- A Borrower-Owned Land Appraisal refers to the valuation of an interest in land without
- 28 man-made Structures.

29 b. Standard

- A Borrower-owned land appraisal is required under Title I when a real estate interest in land
- is acquired to support the Manufactured Home.

- F. Appraiser and Property Requirements for Title I
- 6. Valuation Development Borrower-Owned Land
- When the secured Property consists of a borrower-owned lot and a Manufactured Home that
- are, in combination, treated as real estate by the local government, the Lender must obtain a
- 3 single appraisal from an FHA Roster Appraiser.

c. Required Analysis and Reporting

- The Appraiser must provide a written narrative format or a commercially available reporting form. The appraisal report must include, at minimum, the following:
 - property address;
 - legal description;
- owner of record;
- occupancy;

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- assessment and tax information;
 - property rights appraised;
- site size;
 - zoning;
 - highest and best use;
- shape;
- topography;
 - drainage;
- availability of utilities;
 - site amenities;
- drainage;
 - availability of utilities;
 - if it is located within a FEMA-designated SFHA; and
 - a sales grid, including:
 - o detailed information on at least three comparable sales;
 - o a quantitative comparison of those property attributes to the subject;
 - o a comparison of the number of comparable unimproved properties sold to the number of offered and listed for sale to determine supply and demand, absorption rate, and other market data required so that the report is not misleading; and
 - o certification and limiting conditions as included in the *Uniform Residential Appraisal Report (URAR)*, Fannie Mae Form 1004/Freddie Mac Form 70, and any other forms and documentation necessary to comply with USPAP Standard 2.
 - When completing the sales grid, the Appraiser must compare and appropriately adjust the sales of comparable unimproved building lots or sites for differences in location, size, zoning, utility connection or availability of utility connection, site improvement and any other pertinent factors. The Appraiser must then reconcile the adjusted sales into a value conclusion.
 - The Appraiser must calculate and extract any costs to be incurred from razing the existing improvements and cleaning up the site from the value of the supporting land to arrive at a final conclusion of value of the site as if vacant and ready to be put to its highest and best use.

- F. Appraiser and Property Requirements for Title I
- 7. Reporting Requirements

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7. Reporting Requirements

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2	a. Standard
3 4	HUD does not provide a specific appraisal form to be used for valuation of a borrower-owned lot, or a Manufactured Home classified as Personal Property.
5	b. Certification
6 7	Regardless of the form used, the appraisal report must contain a signed certification that is similar in content to the following certification statement:
8	I certify that, to the best of my knowledge and belief:
9	— The statements of fact contained in this report are true and correct.
10 11 12	— The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
13 14 15	— I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.
16 17 18	— I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
19 20	— I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
21 22	— My engagement in this assignment was not contingent upon developing or reporting predetermined results.
23 24 25 26 27	— My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
28 29	— My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
30 31 32 33	— I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

- F. Appraiser and Property Requirements for Title I
- 8. Appraisal Exhibits and Photos

— No one provided significant personal property appraisal assistance to the person
 signing this certification. (If there are exceptions, the name of each individual providing
 significant personal property appraisal assistance must be stated.)

4 8. Appraisal Exhibits and Photos

- 5 If the Manufactured Home is already set on the lot, the Appraiser must include a legible street
- 6 map showing the location of the subject, and, when used, each of the comparable properties,
- 7 including sales, rentals, listings, etc., utilized. If substantial distance exists between the subject
- 8 and comparable properties, additional legible maps must be included.
- 9 The Appraiser must label all submitted photographs.

FHA Required Appraisal Photographs				
Photograph Exhibit	Required Photograph			
Subject Property Exterior	 Front at angled corners to show front and one side of the unit. Improvements with Contributory Value not captured in the other exterior photographs. For a Manufactured Home Lot Loan, a photograph that shows the above grade of the vacant lot. 			
Subject Property Interior	 Main living areas, kitchen, and bathrooms. Any other room representing overall condition. Recent updates such as Restoration, remodeling and renovation. 			
Comparable Sales, Listings, Pending Sales, Rentals, etc. (applicable to appraisals that use comparable approach)	 Photographs depicting the front view of each comparable used, taken at an angle to depict both the front and the side. A sales listing's (e.g., Multiple Listing Service) photographs may be included to exhibit comparable condition at the time of sale. 			
Subject Property Deficiencies	 Photographs of the deficiency or condition requiring inspection or repair. 			
Condominium or Leased Projects	 Additional photographs of the common areas and shared amenities of the Condominium Leased Project. 			

10 9. HUD Certification Label

11 **a. Definition**

- HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four
- inch aluminum plate permanently attached to Manufactured Homes.

b. Standard

- Manufactured Homes must have an affixed HUD Certification Label located at one end of
- each section of the house, approximately one foot up from the floor and one foot in from the

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

- F. Appraiser and Property Requirements for Title I
- 10. Data Plate

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- 1 road side, or as near that location on a permanent part of the exterior of the house as
- 2 practicable. Etched on the HUD Certification Label is the certification label number, also
 - referred to as the HUD label number. Label numbers are not required to be sequential on a
- 4 multi-section house.

5 c. Required Analysis and Reporting

- The Appraiser must report the HUD label number for all sections, or report that the HUD
- 7 Certification Label is missing or that the Appraiser was unable to locate it.

8 **10. Data Plate**

9 **a. Definition**

- Data Plate refers to a paper document located on the interior of the Property that contains
- specific information about the unit and its manufacturer.
- 12 **b. Standard**
- Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to
- the electric service panel, the utility room or within a cabinet in the kitchen.

15 c. Required Analysis and Reporting

- The Appraiser must report the information on the Data Plate within the appraisal, including
- the manufacturer name, serial number, model and date of manufacture, as well as wind, roof
- load and thermal zone maps.
- 19 If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report
- 20 this in the appraisal and is not required to secure the Data Plate information from another
- source.

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- A. Title II Insured Housing Programs Forward Mortgages
- 1. Title I Property Improvement Loan Program

- 2 A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES
- 3 B. TITLE II INSURED HOUSING PROGRAMS REVERSE MORTGAGES
- 4 C. TITLE I INSURED PROGRAMS
- 5 This section provides the standards and procedures applicable to the servicing of Loans under the
- 6 Property Improvement and Manufactured Home Loan Programs insured under Title I of the
- 7 National Housing Act. The Lender must fully comply with all of the following standards and
- 8 procedures when servicing a Loan insured by the Federal Housing Administration (FHA).
- **9 Financial Operations Center**
- 10 The Financial Operations Center (FOC) provides support for the FHA Title I Property
- 11 Improvement and Manufactured Home Loan Programs. The contact information for the FOC is:
- 12 U.S. Department of Housing and Urban Development
- Financial Operations Center
- 14 52 Corporate Circle
- 15 Albany, New York 12203
- 16 1-800-669-5152, extension 2832
- 17 Title One Help@hud.gov
- 18 1. Title I Property Improvement Loan Program
- 19 Title I FHA-approved Lenders may:
- service the Loans they hold;
 - service Title I Loans on behalf of or at the direction of another FHA-approved Lender; or
- utilize services of a qualified servicing agent.
- 23 The 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. Servicing in Compliance with Law
- 26 i. Definition

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- 27 The Loan Holder is the Entity who holds title to the FHA-insured Loan and has the right
- to enforce the Loan agreement.
- The Loan Servicer is the Entity responsible for performing servicing actions on FHA-
- insured Loans on its behalf or on behalf of or at the direction of another FHA-approved
- 31 Lender.

C.	Title	T	Ingunod	T	rograms
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1. Title I Property Improvement Loan Program

1	n. Standard
2 3	Lenders must ensure all Title I FHA-insured Loans are serviced by a Servicer in accordance with FHA requirements and all applicable laws.
4 5	Servicers must service all FHA-insured Loans in accordance with FHA requirements and all applicable laws.
6	Servicers must comply with all laws, rules, and requirements applicable to Loan
7 8	servicing, including full compliance with the applicable requirements under the purview of the CFPB, including RESPA and TILA.
9	Servicers must comply with all antidiscrimination laws, rules, and requirements
10	applicable to servicing performing FHA-insured Loans and FHA-insured Loans in
11	Default, including full compliance with the applicable requirements of:
12	• Fair Housing Act, 42 U.S.C. §§ 3601-3619;
13	• the FCRA, Public Law 91-508; and
14	• the ECOA, Public Law 94-239 and 12 CFR Part 202.
15	The Servicer must make all determinations with respect to the adequacy of the
16	Borrower's income in a uniform manner without regard to race, color, religion, sex,
17	national origin, familial status, disability, marital status, actual or perceived sexual
18	orientation, gender identity, source of income of the Borrower, or location of the
19	Property.
20	b. General Loan Servicer Requirements
21 22	The Servicer must have adequate facilities for contacting the Borrower in the event of Default and must otherwise exercise diligence in collecting the amount due.
23	The Servicer must have an organized means of identifying, on a monthly basis, the payment
24	status of Delinquent Loans to enable collection personnel to initiate and follow-up on
25	collection activities, and must document its records to reflect its collection activities on
26	Delinquent Loans.
27	i. Responsibility for Servicing Actions
28	Title I Loan holders are responsible for all servicing actions, including the acts of its
29	Servicers.
30	(A) Definitions
31	The Transferor Servicing Lender is the Lender that transfers servicing
32	responsibilities.
33	The Transferee Servicing Lender is the Lender to which the servicing responsibilities
34	have been transferred.

C.	Title	I	Insured	P	r	norams
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1. Title I Property Improvement Loan Program

1 2	The Transfer Date is the date on which the Borrower's Loan Payment is first due to the Transferee Servicing Lender.
3	(B) Standard
4 5 6	The Transferor Servicing Lender remains responsible for the servicing of the Title I FHA-insured Loan. The Transferor Servicing Lender must verify that the change of legal rights to service has been reported accurately.
7	The Transferor Servicing Lender must report the transfer to the <u>FOC</u> .
8 ii.	Title I Loan Sale
9	(A) Definition
10 11	A Loan Sale is a transaction in which a Title I Loan holder sells the Loan to another Title I FHA-approved Lender.
12	(B) Standard
13 14 15	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.
16 17 18	The selling Lender relinquishes all rights and obligations under the contract for loan insurance on the effective date of the sale. The selling Lender remains responsible for the Loan's annual insurance premiums until notice of the sale is received by HUD.
19 20 21 22 23	The purchasing Lender is the Lender that purchases the Loan and thereby succeeds to all rights and obligations of the selling Lender under the contract for Loan insurance. As of the effective date of the sale, the purchasing Lender becomes responsible for outstanding annual insurance premiums, regardless of the date of accrual, and must confirm that the details of the loan sale have been reported accurately.
24 25	A transfer of Title I Loans between Lenders must be reported to HUD within 31 Days of the effective date of the transfer.
26	Exception for Sale with Recourse
27 28	Reporting is not required if an insured Loan is transferred with a recourse, guarantee, or repurchase agreement.
29	(C) Required Documentation
30 31 32	The selling or purchasing Title I Lender must report a transfer of Loans by submitting a form HUD-27030, <i>Title I Transfer of Note Report</i> , to the <u>FOC</u> , Attention: Premiums (Title I Insurance Processing Branch).

1.	Title I	Property	Improvement	Loan	Program
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1 2 3	HUD will accept the completed form HUD-27030 from either the selling Lender or the purchasing Lender as long as the form contains the signatures of authorized officials from both institutions.
4 5 6 7	Transfers of Loans for Title I Property Improvement Loans must be submitted separately from Manufactured Home Loans. The two insurance types cannot be submitted on the same form HUD-27030. The Lender must complete a separate form HUD-27030 for each insurance type being reported.
8 9 10	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.
11 12 13	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 form HUD-27030 is received and processed.
14	iii. Earmarking Reserves
15 16 17 18 19	HUD may transfer a Loan or group of Loans with earmarking which keeps the insurance coverage separate from other loans owned by the purchasing Lender. In other words, the insurance coverage reserves associated with the Loans being transferred remain in a separate account from any loans already held by the purchaser. Once a Loan is earmarked it remains earmarked even if it is subsequently transferred to another Lender.
20	iv. Providing Information to HUD
21 22 23 24	The Lender must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire loan origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.
25 26 27	When HUD staff request information, the Lender must make available legible documents and in the format (electronic or hard copy) requested within 24 hours of the request or as otherwise permitted by HUD.
28	v. Communication with Authorized Third Parties
29	(A) Definition
30 31	Authorized Third Parties are parties who are not Borrowers on the Loan but who are authorized to communicate with Lenders regarding a Loan.
32	(B) Standard
33 34	The Lender must provide loan information and arrange for individual consultation to parties authorized by the Borrowers.

C.	Titla	T	Incured	1	Programs
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1. Title I Property Improvement Loan Program

2	The Lender must comply with all laws, rules, and requirements applicable to third-party access to loan information.
3	(C) Required Documentation
4 5	If communicating with an Authorized Third Party, the Lender must include documentation of the authorization in the servicing binder.
6	vi. Prepayment
7	(A) Definitions
8 9	A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.
10 11	A Prepayment in Full or Payoff is the payment in whole of the principal amount of the loan Note in advance of expiration of the term of the loan Note.
12 13	The Installment Due Date is the first Day of the month, as provided for in the Security Instrument.
14	(B) Standard
15 16	The Lender must accept a prepayment of a Loan in whole or in part on any Installment Due Date without penalty to the Borrower.
17	(C) Trustee's Fee for Satisfactions
18 19 20 21	If specifically provided for in the Security Instrument, the Lender may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fee for payment, or for the execution of a satisfaction, release or trustee's deed when the debt is paid in full.
22	(D) Recording Fees for Satisfactions
23 24	The Lender may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Lender.
25	vii. Insurance Coverage Administration
26	(A) Hazard Insurance
27	At their option, Lenders may require the Borrower to have hazard insurance.

1	(B) Flood Insurance
2	(1) Standard
3 4	Flood insurance is required if the Loan is to be secured by a Property that is located in an SFHA.
5 6	Lenders and Servicers must ensure that Borrowers maintain adequate flood insurance during the life of the Loan.
7 8 9 10	Insurance must be obtained if the Lender or Servicer becomes aware that the home site involved subsequently becomes part of an SFHA due to a Flood Insurance Rate Map (FIRM) revision. The insurance must be maintained by the Borrower for the remaining term of the Loan.
11 12	Lenders must force place flood insurance if the Borrower allows the policy to lapse or if the coverage is found to be inadequate.
13	(2) Required Documentation
14 15	The Lender must include in the case binder a copy of the insurance policy showing the amount of coverage and name of the loss payee.
16	(C) Hazard or Flood Insurance Proceeds
17	Insurance Claims
18 19	The Lender must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.
20	viii. Annual Insurance Premium and Billing and Remittance
21	(A) Definition
22 23	Annual Insurance Premiums are charges that are remitted to HUD each year of the loan term.
24 25	Loan Term, for the purposes of Title I insurance, refers to the term of the insurance coverage, which extends from the Loan's Disbursement to maturity.
26	(B) Standard
27 28 29	The Lender must pay an insurance premium equal to 1.00 percent of the loan amount, multiplied by the number of years of the loan term. The 1.00 percent premium is calculated on the original loan amount rather than the declining loan amount.
30	All insurance charges are considered earned when paid.

1	(C) Billing Insurance Premium
2 3	HUD will issue a billing statement each month to the Lender through FHAC. The billing statement will show the total amount due to HUD for that period.
4	(1) Billing Schedule
5 6	HUD bills a Lender for the initial installment of the insurance charge on the next monthly billing statement after a Lender reports the Loan for insurance.
7 8 9 10	If the loan term is 25 months or less, the Lender will receive one billing statement that reflects the entire insurance charge. For all other loan terms, the initial billing statement will reflect the annual premium for the year, plus any applicable penalty or interest for late premium payments.
11 12	HUD bills a Lender for the remaining premium installments annually. This billing occurs during the month of the loan disbursement anniversary.
13 14	The final annual installment may be adjusted to reconcile with the total insurance charge due.
15 16 17	A premium is not required and HUD will not bill for a period of 14 Days or less after acknowledgement of the loan report in FHAC. A charge for a full month is assessed for a period of more than 14 Days.
18 19 20 21 22	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 prorated based on the number of months remaining (e.g., 0.50 percent for six months). HUD will include the prorated 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.
23	(2) Late Reporting
24 25 26	A Loan that is submitted for insurance after the first anniversary of the Disbursement Date will not be insured until all past due annual premium charges are paid.
27	(D) Premium Adjustment on Notes Transferred
28 29 30 31 32	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 form HUD-27030.

1	(E) Remittance of Annual Insurance Premium
2 3 4	Lenders must remit the annual insurance premium electronically through Pay.gov . Instructions for accessing Pay.gov can be found in the Title I User Guide, which can be accessed from FHAC under Property Improvement/Manufactured Home.
5 6	The first annual premium payment due will be reflected on the billing statement issued the month after the Lender reports the Loan for insurance in FHAC.
7	(F) Loan Terms Less than or Equal to 25 Months
8 9 10 11	If a loan term is 25 months or less, the Lender will receive only one billing statement that reflects the entire insurance charge. Lenders must pay the entire insurance charge reflected on the billing statement no later than the 25th Day after the date of the billing statement.
12	(G)Loan Terms Greater than 25 Months
13 14 15 16 17 18	 For loan terms greater than 25 months, the following must occur: The first billing statement must reflect the initial annual installment due. The insurance premium must be paid in annual installments. Payments must be paid by the due date reflected on the billing statement. Annual installments are due on the 25th Day after the date of billing by HUD. Second and successive installments are due annually.
19	Lenders must remit the loan insurance premium electronically through <u>Pay.gov</u> .
20	(H)Penalty Charge and Interest on Late Premium Payments
21 22	Insurance premiums not received from the Lender by the due date will be assessed a penalty charge of 4 percent of the amount of the payment.
23 24 25 26 27	Insurance premiums received from the Lender more than 30 Days after the due date will also be assessed daily interest at the United States Treasury Current Value of Funds Rate. However, no penalty charge or daily interest will be assessed if HUD fails to acknowledge receipt of the loan report or fails to bill the Lender for the insurance charges.
28	(I) Refund or Abatement of Insurance Charges
29 30 31 32 33 34 35	 HUD does not grant any request for an insurance premium refund or abatement for the following reasons: The Lender has exhausted its insurance reserve account or is no longer participating in the Title I Program. The loan reporting occurs after the Loan is paid in full by the Borrower. HUD determines that there was fraud or misrepresentation by a Lender in the loan transaction.

Exceptions

A refund or abatement of insurance charges is permitted only when the following events occur:

- If the loan obligation is refinanced into another Title I Loan, HUD will prorate any paid annual installments between the old Loan and the new Loan. HUD will use the date of the refinance to determine the amount prorated.
- If the loan obligation is prepaid in full, charged off in accordance with IRS regulations, or Defaulted with an insurance claim, HUD does not bill for annual installments after a Lender informs HUD of these events. There will be no partial refund of insurance charges already paid for that portion of the year occurring after the reporting of such events.
- If a Loan or portion thereof, is ineligible for insurance from its inception due
 to statutory violations, HUD refunds any insurance charges that have been
 paid on the ineligible portion. HUD refunds the insurance charges only if
 HUD denies an insurance claim based upon this ineligibility, or if a Lender
 reports the ineligibility promptly upon discovery and HUD confirms the
 ineligibility.

If an insurance claim is denied due to ineligibility and a Lender subsequently resubmits the claim with information showing that it was in fact eligible, any refunded amount of the insurance premium plus any accrued insurance charges must be paid by the Lender.

(J) Lender Review of Premium Charges

The 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.

(1) Reconciling the Billing Statement

The 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. The Lender should check each billing entry to confirm the Loan's status. If a Loan is no longer active, the Lender may withhold payment (take an "exception") for the premium charge billed for that Loan. The Lender must provide HUD with data on premium charges withheld when processing payment to HUD.

1	(2) Exception Reporting
2 3 4	The billing statement provided on FHAC allows Lenders to take "exceptions" on Loans where they believe they no longer owe premiums (prepaid, claim submitted, other, etc.).
5	(3) Exception Reviews
6 7 8 9 10	HUD reviews 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.
11	ix. Reporting Non-compliant Activities (e.g., Contractor, Borrower, Lender)
12 13	If a Lender discovers fraud, misrepresentation, or substantial non-compliance with program requirements, the Lender must promptly submit a report to HUD.
14 15 16 17 18 19 20 21 22 23 24 25 26 27 28	 Examples of non-compliant activities that must be reported include: a misstatement of fact on the credit application or falsified documentation; Borrower use of the loan proceeds for other than property improvements and eligible charges, such as for debt consolidation, automobiles, and other personal items; Borrower receipt of a cash payment, rebate, bonus, commission or anything of value in excess of \$25 as an inducement to enter into the loan transaction; Borrower failure to submit an executed Completion Certificate; Borrower, Dealer or inspection company false certification that the improvements are completed; Dealer failure to fulfill all contractual obligations with the Borrowers (e.g., failure to complete all work as specified or inferior workmanship); and advertising and marketing by a Dealer or other organization that is inaccurate or deceptive.
29 30 31 32 33 34	The Lender must prepare a report of non-compliance on the Lender's letterhead. The report must detail the non-compliant 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.
35	The report must be sent to:

1.	Title I	Property	Improvement	Loan	Program
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1 2 3 4 5		Housing Office of Lender Activities and Program Compliance Attn: Director, Quality Assurance Division Department of Housing and Urban Development 451 7 th Street, S.W. Washington, DC 20410
6 7 8 9		If the Loan has been insured by HUD, the insurance on the Loan will stay in effect. If the non-compliant 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.
10	c.	Assumptions
11		i. Conditions for an Assumption
12 13 14 15 16 17 18 19 20 21 22 23 24		 At the option of the Lender, an existing Title I Loan may be assumed, subject to the following conditions: a determination by the Lender that the assumptor is eligible; a determination by the Lender that the assumptor is an acceptable credit risk based on HUD's underwriting requirements; 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; and prior to execution of the assumption agreement, the Lender must provide the assumptor with a Notice to Borrower of HUD's Role and obtain the assumptor's acknowledgement.
25		ii. Release of Liability
26 27 28 29		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 must retain documentation of the release in the case binder.
30		iii. No Release of Liability
31 32 33 34 35 36 37		If a Lender opts not to release the original Borrower(s) and intervening assumptor(s), the Lender must comply with all the servicing requirements 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. 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

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1. Title I Property Improvement Loan Program

requirement that the Lender maintains and assigns to HUD a legally enforceable Note pertains to any Borrower who was not officially released from liability.

iv. Assumption Fee

The Lender may charge up to 1 percent of the unpaid principal balance as a fee for approving the assumptor and preparing the assumption agreement.

v. Reporting an Assumption to HUD

Lenders must report the assumption to the <u>FOC</u> in order to have the current Borrower's name reflected on future insurance charge billing statements. When reporting an assumption, the Lender must supply the FHA case number, the name of the original Borrower and the name(s) and Social Security Number(s) (SSN) of the assumptor(s).

d. Modification of a Current Loan

A Lender may enter into a modification agreement with a Borrower without prior permission from HUD on a Loan that is current. A modification agreement:

- requires a written agreement signed by the Borrower;
- need not be recorded;
- may only decrease the interest rate;
- must not advance new funds; and
 - does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.

e. 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. For any loss mitigation strategy implemented, the Lender must determine that the Borrower is reasonably able to repay past arrearages and qualify based on the Approvable Qualifying Ratio.

i. Contact with the Borrower

Before taking action to accelerate the maturity of the Loan, the Lender or its agent must contact the Borrower and any co-maker or Cosigner, either in a face-to-face meeting or by telephone, to discuss the reasons for the Default and to seek its cure. If the Borrower and the co-makers or Cosigners cannot be located, will not discuss the Default, or will not agree to its cure, the Lender may proceed to take action. The Lender must document the results of its efforts to contact the Borrower and any co-maker or Cosigner.

ii. Loss Mitigation Tools

HUD encourages loss mitigation to help a delinquent Borrower return the Loan to good standing. The purpose of loss mitigation is to reduce HUD and Lender losses, and

1.	Title I	Property	Improvement	Loan	Program
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1 2	preserve insurance reserves. Listed below are the tools available to Lenders and Borrowers that can assist in bringing the Loan current.
3	(A) Refinance
4 5 6 7	A Loan that is in Default may be <u>refinanced</u> . There can be no "cash out" to the Borrower. The principal amount of the new Loan may not exceed the lesser of: 1) the cost to the Borrower of prepaying the existing Loan or 2) the original principal balance of the original Loan being refinanced.
8	(B) Modification Agreement
9 10 11 12 13 14 15 16 17 18 19 20 21 22	The Borrower may be considered for a Loan Modification if the Borrower has recently experienced an involuntary reduction in income or an unexpected increase in living expenses, and the Lender determines the Borrower has a 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; and • does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.
23	(C) Repayment Plan
24 25 26 27 28 29 30	Unlike a modification, a repayment plan does not require a Borrower signature, and will cure delinquency in a short time. As with a modification, a Borrower may be considered for a short repayment plan if the Borrower has recently experienced an involuntary reduction in income or an unexpected increase in living expenses and 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.
31 32 33 34 35	 A repayment plan: must be evidenced by a copy of the Lender's letter to the Borrower outlining the terms of the agreement; cannot extend beyond six months; and does not require any further insurance reporting to HUD.

(D) Partial Payments

The Lender must accept a Partial Payment (inclusive of Late Charges) under an executed modification agreement or an approved repayment plan and either 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. If a Partial Payment is received more than 60 Days after the date of Default and was not submitted under a repayment plan or a modification agreement, the Partial Payment may be returned to the Borrower, with a letter of explanation.

(E) Assumption

If a Borrower cannot afford to continue to make Loan Payments and elects to sell the Property, the Lender may approve an assumption of the Loan.

iii. Notice of Default and Acceleration

The 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 include when the Borrower cures the Default, agrees to a modification agreement or repayment plan, or is in bankruptcy. The notice must be in a font size no smaller than the equivalent of Times New Roman Size 12 for the entire notice.

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

- a description of the obligation or security interest held by the Lender;
- a 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 30 Days from the date of the notice;
- a demand upon the Borrower either to cure the Default (by bringing the Loan current or by refinancing the Loan) or to agree to a modification agreement or a repayment plan, no later than the date 30 Days from the date of the notice;
- a statement that if the Borrower fails either to cure the Default or to agree to a modification agreement or a repayment plan by the date accruing 30 Days from the date of the notice, then, as of the date 30 Days from the date of the notice, the maturity of the Loan is accelerated and full payment of all amounts due under the Loan is required; and
- a statement that if the Default persists the Lender will report the Default to an appropriate credit reporting agency:

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

1.	Title I	Property	Improvement	Loan	Program
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(B) Deceased Borrower

If a Borrower dies, the Lender must obtain documentation that confirms the death. A death certificate, which can be difficult to obtain, is not necessary if other reasonable evidence exists. The Lender must determine if a probate proceeding exists and document its findings. If it does, the Lender must file a proof of claim, and verify that it was received on time and accepted. Documentation of these steps and any other efforts to protect the Lender's interest must be kept in the case binder.

f. Release or Substitution of Security

i. Prior Approval Required

(A) Standard

The Lender must obtain prior approval from HUD to release or substitute any lien securing a Title I insured Loan. Requests for prior approval must be submitted in writing to the FOC.

(B) Required Documentation

The Lender's request for approval of release or substitution must include:

- information regarding what modification to the lien is proposed;
- why the Borrower is seeking to modify the lien;
- how the modification of the lien could benefit the Borrower or help them to avoid hardship;
- the Lender's recommendation; and
- documentation that supports why HUD should approve the request.

(1) Release of Lien for Short Sale

In the case of a Short Sale where the Property is to be sold but the sale proceeds are insufficient to pay all liens in full, the documentation must include:

- copies of the contract of sale;
- an appraisal showing the value of the Property;
- the Title Report for the Property; and
- the proposed Settlement Statement or similar legal document showing how the proceeds will be distributed.

The lien securing the Title I Loan should be treated equitably and the sale must provide for a payment that will result in a significant principal reduction to the Title I Loan. The Title I Loan may be in Default, but the delinquency must not exceed four payments and the payment from the Short Sale must be sufficient to bring the Loan current as well as make a principal reduction.

1.	Title I	Property	Improvement	Loan	Program
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1	Unless HUD also approves a <u>release of liability</u> or a Borrower is discharged in
2 3	bankruptcy, the Note must remain valid and enforceable against all Borrowers. To
3 4	avoid any confusion or misunderstanding, the Lender must obtain an affidavit
5	from the Borrower(s) that reaffirms their obligation to repay the remaining
6	portion of the Title I Loan. The Lender must be careful to prevent an
7	unintentional release of liability while processing the release of lien. "Paid in Full," "Satisfied in Full," or similar text must not be indicated on the release
8	document, on the promissory note, or in other correspondence from the Lender
9	regarding the release of lien.
10	(2) Partial Release of Security
11	In the case of a partial release of security, the documentation must include:
12	 a legal description of the Property to be released;
13	 an appraisal showing the value of the Property to be released and of the
14	Property that will continue to secure the lien; and
15	 information on the consideration received and how the funds will be
16	distributed.
10	GISHIO GLOCA
17	The Lender must apply 100 percent of the consideration to reduce the Title I Loan
18	and/or liens that are senior to the lien securing the Title I Loan.
19	ii. Substitution of Security
20	(A) Standard
21	To be eligible for substitution of the security, the security must not be impaired or
22	reduced in value. The security value provided by the proposed substitution Property
23	must equal or exceed the value of the existing security.
24	(B) Required Documentation
25	The submission to the FOC must include:
26	 current appraisals for both Properties;
27	• information on the outstanding balances of all liens against both Properties;
28	and
29	 information regarding ownership.
30	iii. Subordination of Security
31	(A) Prior Approval Requirement
32	Except as provided below, the Lender must request approval from HUD to
33	subordinate the Title I security. The Lender must submit approval requests to the
34	FOC.

Exceptions

The Lender may approve and execute a subordination of security without prior approval from HUD in compliance with the following: the Lender may subordinate the Title I security to Easements that the Borrower may grant to a utility company or in connection with aviation or noise abatement programs; or to correct obvious errors in the recording of the Title I lien or other liens.

Prior approval from HUD is also not required when the following conditions are met:

- In all cases there must not be indications of misuse of the loan proceeds or other non-compliance with HUD's requirements, or other irregularities.
- The scheduled improvements must be completed and a Completion Certificate executed.
- If an inspection was required, the inspection report should confirm that all improvements were completed.
- The Title I Loan must be current.

The Lender may approve a Delinquent Title I Loan if the delinquency is six months or less, and the Loan will be brought current from the proceeds of a refinance of the Borrower's first Mortgage.

(B) Refinancing of a Senior Lien

The Lender may subordinate the Title I security in the case of a refinance of the senior Mortgage(s), provided that the refinanced transaction offers a clear benefit to the Borrower. The Lender may subordinate the Title I Loan to a senior lien under the following circumstances:

- The new Loan results in no cash back to the Borrower, and must be for an interest rate that is at least 1 percent lower than the existing Loan to be paid off and/or a lower monthly Loan Payment.
- If the refinance of the senior lien results in a cash-out, the excess proceeds must be used to:
 - o bring a Delinquent Title I Loan current (provided the Title I Loan is no more than six months Delinquent);
 - o reduce the principal balance on a Title I Loan;
 - o pay off an additional Mortgage that has priority over the Title I lien (and thus the Title I lien moves up in lien position); and/or
 - capitalize up to three delinquent payments due on the existing senior Mortgage, including accrued interest, Late Charges, and regularly scheduled payments into an escrow account (for taxes and insurance).

Capitalization of a delinquent payment is only permitted if the Title I Loan is current and had not been modified to bring it current within the last three months. To prevent elimination of the Title I lien, additional delinquent payments and legal costs may be capitalized if the senior lien holder has filed in court for foreclosure or trustee sale.

- C. Title I Insured Programs
- 2. Title I Manufactured Home Loan Program
- 1 The Lender must not subordinate the Title I security for a refinance that includes 2 cash-out for payment of other obligations, including, but not limited to: 3 unsecured debt: 4 • Loans secured by collateral other than the subject Property: 5 • Loans in junior lien position to the Title I Loan; or • for any other purpose without prior approval from HUD. 6 7 2. Title I Manufactured Home Loan Program 8 Title I FHA-approved Lenders may: 9 service the Loans they hold; • service Title I Loans on behalf of or at the direction of another FHA-approved Lender; or 10 utilize services of a qualified servicing agent. 11 The Lender will remain responsible to HUD for proper collection efforts, even though an agent 12 13 of the Lender may perform actual loan servicing and collection. 14 a. Servicing in Compliance with Law i. Definition 15 16 The Loan Holder is the Entity who holds title to the FHA-insured Loan and has the right 17 to enforce the loan agreement. The Loan Servicer is the Entity responsible for performing servicing actions on FHA-18 19 insured Loans on its behalf or on behalf of or at the direction of another FHA-approved 20 Lender. 21 ii. Standard 22 Lenders must ensure all Title I FHA-insured Loans are serviced by a Servicer in 23 accordance with FHA requirements and all applicable laws. 24 Servicers must service all FHA-insured Loans in accordance with FHA requirements and 25 all applicable laws. 26 Servicers must comply with all laws, rules, and requirements applicable to Loan servicing, including full compliance with the applicable requirements under the purview 27 28 of the Consumer Financial Protection Bureau (CFPB), including the Real Estate 29 Settlement Procedure Act (RESPA) and the Truth in Lending Act (TILA). 30 Servicers must comply with all antidiscrimination laws, rules, and requirements 31 applicable to servicing performing FHA-insured Loans and FHA-insured Loans in

32 33 Default, including full compliance with the applicable requirements of:

• Fair Housing Act, 42 U.S.C. §§ 3601-3619;

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2 3	 the Fair Credit Reporting Act (FCRA), Public Law 91-308; and the Equal Credit Opportunity Act (ECOA), Public Law 94-239 and 12 CFR Part 202.
4 5 6 7 8	The Servicer must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, national origin, familial status, disability, marital status, actual or perceived sexual orientation, gender identity, source of income of the Borrower, or location of the Property.
9	b. Loan Servicer Requirements
10 11	The Servicer must have adequate facilities for contacting the Borrower in the event of Default and must otherwise exercise diligence in collecting the amount due.
12 13 14 15	The Servicer 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, and must document its records to reflect its collection activities on Delinquent Loans.
16 17	Title I Loan holders are responsible for all servicing actions, including the acts of its Servicers.
18	i. Transfer of Servicing Rights
19	(A) Definitions
20 21	The Transferor Servicing Lender is the Lender that transfers servicing responsibilities.
22 23	The Transferee Servicing Lender is the Lender to which the servicing responsibilities have been transferred.
24 25	The Transfer Date is the date on which the Borrower's Loan Payment is first due to the Transferee Servicing Lender.
26	(B) Standard
27 28 29	The Transferor Servicing Lender remains responsible for the servicing of the Title I FHA-insured Loan. The Transferor Servicing Lender must verify that the change of legal rights to service has been reported accurately.
30	The Transferor Servicing Lender must report the Transfer to the <u>FOC</u> .

1	ii.	Title I Loan Sale
2		(A) Definition
3 4		A Loan Sale is a transaction in which a Title I Loan holder sells the Loan to another Title I FHA-approved Lender.
5		(B) Standard
6 7 8		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.
9 10 11		The selling Lender relinquishes all rights and obligations under the contract for loan insurance on the effective date of the sale. The selling Lender remains responsible for the Loan's annual insurance premiums until notice of the sale is received by HUD.
12 13 14 15 16		The purchasing Lender is the Lender that purchases the Loan and thereby succeeds to all rights and obligations of the selling Lender under the contract for Loan insurance. As of the effective date of the sale, the purchasing Lender becomes responsible for outstanding annual insurance premiums, regardless of the date of accrual, and must confirm that the details of the loan sale have been reported accurately.
17 18		A transfer of Title I Loans between Lenders must be reported to HUD within 31 Days of the effective date of the transfer.
19		Exception for Sale with Recourse
20 21		Reporting is not required if an insured Loan is transferred with a recourse, guarantee, or repurchase agreement.
22		(C) Required Documentation
23 24 25		The selling or purchasing Title I Lender must report a transfer of Loans by submitting a form HUD-27030, <i>Title I Transfer of Note Report</i> , to the <u>FOC</u> , Attention: Premiums (Title I Insurance Processing) Branch.
26 27 28		HUD will accept the completed form HUD-27030 from either the selling Lender or the purchasing Lender as long as the form contains the signatures of authorized officials from both institutions.
29 30 31 32		Transfers of Loans for Title I Property Improvement Loans must be submitted separately from Manufactured Home Loans. The two insurance types cannot be submitted on the same form HUD-27030. The Lender must complete a separate form HUD-27030 for each insurance type being reported.

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1 2 3	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.
4 5 6	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 form HUD-27030 is received and processed.
7	(D) Earmarking Reserves
8 9 10 11 12 13	HUD may transfer a Loan or group of Loans with earmarking which keeps the insurance coverage separate from other loans owned by the purchasing Lender. In other words, the insurance coverage reserves associated with the Loans being transferred remain in a separate account from any loans already held by the purchaser Once a Loan is earmarked it remains earmarked even if it is subsequently transferred to another Lender.
14	iii. Providing Information to HUD
15 16 17 18	The Lender must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire loan origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the Borrower.
19 20 21	When HUD staff request information, the Lender must make available legible documents and in the format (electronic or hard copy) requested within 24 hours of the request or as otherwise permitted by HUD.
22	iv. Communication with Authorized Third Parties
23	(A) Definition
24 25	Authorized Third Parties are parties who are not Borrowers on the Loan but who are authorized to communicate with Lenders regarding a Loan.
26	(B) Standard
27 28	The Lender must provide loan information and arrange for individual consultation to parties authorized by the Borrowers.
29 30	The Lender must comply with all laws, rules, and requirements applicable to third-party access to loan information.
31	(C) Required Documentation
32 33	When communicating with an Authorized Third Party, the Lender must include documentation of the authorization in the servicing binder.

1	v.	Prepayment
2		(A) Definitions
3 4		A Partial Prepayment is a payment of part of the principal amount before the date on which the principal is due.
5 6		A Prepayment in Full or Payoff is the payment in whole of the principal amount of the loan Note in advance of expiration of the term of the loan Note.
7 8		The Installment Due Date is the first Day of the month, as provided for in the Security Instrument.
9		(B) Standard
10 11		The Lender must accept a prepayment of a Loan in whole or in part on any Installment Due Date without penalty to the Borrower.
12		(C) Trustee's Fee for Satisfactions
13 14 15 16		If specifically provided for in the Security Instrument, the Lender may charge the Borrower the amount of the trustee's fee, plus any reasonable and customary fee for payment, or for the execution of a satisfaction, release or trustee's deed when the debt is paid in full.
17		(D) Recording Fees for Satisfactions
18 19		The Lender may charge the Borrower a reasonable and customary fee for recording satisfactions in states where recordation is not the responsibility of the Lender.
20	vi.	Insurance Coverage Administration
21		(A) Hazard Insurance
22 23 24 25		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 no less than the actual value of the home where state law precludes a higher amount. The Lender must be named as the loss payee.
26 27 28		If a Borrower does not maintain the required hazard insurance, the Lender must obtain the insurance and may pass on the expense to the Borrower. However the cost of such insurance may not be included in the <u>calculation of HUD's claim payment</u> .
29 30 31 32		When a Lender obtains title to the home through repossession, the Lender must purchase and maintain sufficient hazard insurance until the sale or final disposition of the home. The cost of such insurance may be included in the calculation of HUD's claim payment.

The Lender assumes the risk for loss of insurance benefits for non-compliance with 1 2 hazard requirements. 3 (B) Flood Insurance 4 (1) Standard 5 Flood insurance is required if the home site is located in a Special Flood Hazard Area (SFHA) identified by the Federal Emergency Management Agency 6 7 (FEMA). 8 Flood insurance must be obtained at any time during the term of the Loan when 9 the Lender determines the secured Property is located in an SFHA. 10 The Lender must ensure that insurance is in force for the life of the Loan or so 11 long as such coverage remains available, unless the area in which the Property is 12 located is no longer designated as an SFHA. If, due to rezoning, a Property 13 securing an FHA-insured Loan becomes located in an SFHA, the Lender must enforce HUD's flood insurance requirements on coverage amounts and 14 maintenance. 15 16 If the Borrower does not maintain flood insurance as required, the Lender must force place the insurance and may pass on the expense to the Borrower. However, 17 the cost of such insurance may not be included in the calculation of HUD's claim 18 19 payment. 20 When a Lender obtains title to a home through repossession, the Lender may 21 obtain and maintain flood insurance if the Property is or will be located in an 22 SFHA identified by FEMA until the sale or disposition of the home. 23 The amount of the insurance must be sufficient to comply with the National Flood 24 Insurance Program (NFIP). The Title I Lender must be named as a loss payee. If the Lender fails to obtain the required flood insurance and an uninsured home is 25 26 damaged, HUD will adjust its claim payment. 27 When a Manufactured Home is without flood insurance and has sustained, at any 28 time prior to the sale or disposition of the home, damage that would normally be 29 covered by such insurance, the appraised value for claim calculation purposes will 30 be based on the retail value of comparable homes in undamaged condition without any deduction for such damage. 31 32 The cost of such insurance may be included in the calculation of HUD's claim 33 payment.

1	(2) Required Documentation
2 3	The Lender must include in the case binder a copy of the insurance policy showing the amount of coverage and name of the loss payee.
4	(C) Hazard or Flood Insurance Claims
5 6	The Lender must take necessary steps to ensure that hazard or flood insurance claims are filed and settled as expeditiously as possible.
7	vii. Annual Insurance Premium and Billing and Remittance
8	(A) Definition
9 10	Annual Insurance Premiums are charges that are remitted to HUD each year of the loan term.
11 12	Loan Term, for the purposes of Title I insurance, refers to the term of the insurance coverage, which extends from the Loan's Disbursement to maturity.
13	(B) Standard
14 15 16 17	The Lender must pay an insurance premium equal to 1.00 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.
18	All insurance charges are considered earned when paid.
19	(C) Billing Annual Insurance Premium
20 21	HUD will issue a billing statement each month to the Lender through FHAC. The billing statement will show the total amount due to HUD for that period.
22 23 24 25	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 are still covered by the Lender's insurance reserve account.
26	(1) Billing Schedule
27 28 29 30	HUD bills the Lender for the initial installment of the insurance charge 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 anniversary of the Loan's Disbursement Date.
31 32	HUD bills a Lender for the remaining premium installments annually. This billing occurs during the month of the loan disbursement anniversary.

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1 If the loan term includes a partial year (e.g., 12 years and 6 months), the annual 2 premium charge for the final partial year is prorated based on the number of 3 months remaining (e.g., 0.50 percent for six months). HUD will include the 4 prorated annual premium charge for the final partial year with the premium 5 charge billed for the final full year, if the partial year is less than 7 months. 6 This may vary from the number of Borrower payments required to repay the Loan. The loan term varies based on the time between the Disbursement Date and 7 8 the date of the first payment. When calculating the loan term, HUD does not 9 count partial months of 14 Days or less. HUD counts as a full month any partial 10 month that is more than 14 Days. 11 (2) Late Endorsement Reporting A Loan that is reported for endorsement after the first anniversary of the 12 13 Disbursement Date will not be endorsed until the upfront premium and all past due annual premium charges are paid. The Lender must contact the FOC to 14 confirm the amount due and to make arrangements for payment. 15 16 (D) Premium Adjustment on Notes Transferred 17 When Loans are transferred between Lenders and the premium charges on the Loans 18 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 19 20 Lender for any unpaid insurance charges, after being notified of the transfer in compliance with requirements for a Title I Loan Sale. 21 22 The Lender or subsequent owner of the Loan is responsible for the payment of all premium charges. If the Lender uses a Servicer to handle this function, HUD can 23 establish billing for a Servicer on behalf of the Lender. 24 (E) Remittance of Annual Insurance Premium 25 Lenders must remit the annual insurance premium electronically through the 26 27 Department of Treasury's Pay.gov. Instructions for account set up in Pay.gov can be 28 found in the Title I User Guide, which can be accessed from FHAC under Property Improvement/Manufactured Home. 29 30 The Lender must remit its annual premium payment within 25 Days from the date of each billing statement. The billing statement will specify the payment due date. 31 32 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 33 34 government-wide collection portal. The application is web-based, allowing the Lender to access their account from any computer with Internet access. 35

1 2 3 4	The Lender must perform a one-time set up, using FHAC, which includes providing information regarding their bank account. This information is stored in FHA's database and is used to establish an electronic cash flow account from which the upfront and annual premium charges will be paid.
5	(F) Penalty Charge and Interest on Late Premium Payment
6 7	Lenders must pay the insurance premium reflected on their bill on or before the listed Payment Due Date.
8 9	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.
10 11 12 13	Premium payments received from a Lender more than 30 Days after the due date are also assessed daily interest at the United States Treasury <u>Current Value of Funds Rate</u> . 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.
14 15	HUD may accept a late report on a Loan where the Lender certifies that the obligation is not in Default.
16	(G)Refund or Abatement of Insurance Charges
17 18 19 20 21 22 23	 HUD does not grant any request for an insurance premium refund or abatement for the following reasons: The Lender has exhausted its insurance reserve account or is no longer participating in the Title I Program. The Loan reporting occurs after the Loan is paid in full by the Borrower. HUD determines that there was fraud or misrepresentation by a Lender in the loan transaction.
24	Exception
25 26 27 28 29 30 31 32	 A refund or abatement of insurance charges is permitted only when the following events occur: If the loan obligation is refinanced into another Title I Loan, HUD will prorate any paid annual installments between the old Loan and the new Loan. HUD will use the date of the refinance to determine the amount prorated. If the loan obligation is prepaid in full, charged off in accordance with IRS regulations, or Defaulted with an insurance claim, HUD does not bill for annual installments after a Lender informs HUD of these events. There will be
33 34 35 36 37	 no partial refund of insurance charges already paid for that portion of the year occurring after the reporting of such events. If a Loan, or portion thereof, is ineligible for insurance from its inception due to statutory violations, HUD refunds any insurance charges that have been paid on the ineligible portion. HUD refunds the insurance charges only if

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HUD denies an insurance claim based upon this ineligibility, or if a Lender 1 2 reports the ineligibility promptly upon discovery and HUD confirms the 3 ineligibility. 4 If an insurance claim is denied due to ineligibility and a Lender subsequently 5 resubmits the claim with information showing that it was in fact eligible, any refunded amount of the insurance premium plus any accrued insurance charges must 6 7 be paid by the Lender. 8 (H)Lender Review of Premium Charges 9 The 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 10 Loans as indicated in HUD's records, a billing statement could include annual 11 premium charges for Loans where the premium is no longer due. No premium is due 12 13 for 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 14 HUD's records. 15 16 (1) Reconciling the Billing Statement The Lender is responsible for reconciling the billing statement with the Lender's 17 records to ensure that the billed amount and the loan activity reflected on the 18 19 statement are accurate. The Lender should check each billing entry to confirm the 20 Loan's status. 21 (2) Exception Reporting 22 The billing statement provided on FHAC allows Lenders to take "exceptions" on 23 Loans where they believe they no longer owe premiums (prepaid, claim 24 submitted, other, etc.). 25 If a Loan is no longer active, the Lender may withhold payment (take an "exception") for the premium charge billed for that Loan. The Lender must report 26 27 the applicable exception reason for withholding the payment in FHAC. 28 (3) Exception Reviews 29 HUD reviews reported exceptions and may request the Lender to supply 30 supporting documentation if deemed necessary to verify the validity of an exception. HUD will update its records as appropriate, including termination of 31 32 insurance coverage where warranted. HUD will re-bill the Lender for the premium charge if the exception is determined to be invalid. 33

1	viii. Reporting Non-compliant Activities
2 3	If the Lender discovers fraud, misrepresentation, or substantial non-compliance with program requirements, the Lender must promptly submit a report to HUD.
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4 5	Examples of non-compliant activities that must be reported include:
	 misstatement of fact(s) on the credit application; falsified documentation;
6	,
7	• false certifications from Borrowers, Dealers or inspection companies;
8 9	• Dealer's failure to submit an executed <i>Placement Certificate</i> ;
	• Dealer's failure to comply with contractual obligations to the Borrower;
10 11	• dealer referral fee or any like charges paid;
	• inaccurate or deceptive advertising and/or marketing material; and
12	 manufacturer's refusal to honor its warranty.
13	The Lender must prepare a report of non-compliance on the Lender's letterhead. The
14	report must detail the non-compliant activity and must contain the following information
15	to assist in any investigation: borrower name, borrower address, borrower telephone
16	number, loan amount, loan date, inspection date, lender loan number, Title I loan number,
17	loan officer name, dealer name, dealer address, dealer telephone number, and dealer tax
18	identification number.
19	The report must be sent to:
20	Housing Office of Lender Activities and Program Compliance
21	Attn: Director, Quality Assurance Division
22	Department of Housing and Urban Development
23	451 7 th Street, S.W.
24	Washington, DC 20410
~~	
25	If the Loan has been endorsed for insurance by HUD, the insurance on the Loan will stay
26	in effect. If the non-compliant activity was caused or sanctioned by an employee of a
27	Lender, HUD may request that the Lender indemnify HUD for any loss sustained, or may
28	impose other sanctions against the Lender.
29	c. Assumptions
30	i. Conditions
31	At the option of the Lender, an existing Title I Loan may be assumed, subject to the
32	following conditions:
33	 a determination by the Lender that the assumptor is eligible;
34	a determination by the Lender that the assumptor is an acceptable credit risk
35	based on HUD's underwriting requirements;
36	• the execution of an assumption agreement that is satisfactory to the Lender and is
37	signed by the assumptor and the original Borrower(s) or previous assumptor(s) at

- C. Title I Insured Programs
- 2. Title I Manufactured Home Loan Program
- 1 the time of assumption. This agreement must obligate the assumptor for 2 repayment of the Loan so that the original Note is valid and legally enforceable 3 against the assumptor; and prior to execution of the assumption agreement, the Lender must provide the 4 assumptor with a Notice to Borrower of HUD's Role and obtain the assumptor's 5 acknowledgement. 6 7 ii. Release of Liability 8 If the conditions above are met, the Lender, at its option, may release the original 9 Borrower(s) and any intervening assumptor(s) from liability for repayment of the Title I Loan. Approval from HUD is not required. The Lender must retain documentation of the 10 release in the case binder. 11 A Lender must not release the Borrower or any co-maker or Cosigner from liability under 12 the Note without prior approval from HUD. An exception may be possible if there is an 13 14 assumption. iii. No Release of Liability 15 If a Lender opts not to release the original Borrower(s) and intervening assumptor(s), the 16 Lender must comply with the servicing requirements outlined in this section as they 17 pertain to the previous Borrowers/assumptors as well as with the current assumptor-18 19 Borrower. In particular, the Lender must mail the Notice of Default and Acceleration to 20 previous Borrowers/assumptors and repossess/foreclose against the security in such a 21 way as to preserve the legal liability of the previous Borrowers/assumptors. 22 If the 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 23 24 the servicing and liquidation of the Loan. The requirement that the Lender maintains and 25 assigns to HUD a legally enforceable Note pertains to any Borrower who was not officially released from liability. 26 iv. Assumption Fee 27 28 The Lender may charge up to 1 percent of the unpaid principal balance as a fee for 29 approving the assumptor and preparing the assumption agreement. v. Reporting Assumptions 30 31 The Lender must report assumptions to HUD in order to have the current Borrower's 32 name reflected on future insurance charge billing statements. An assumption may be 33 reported via mail, fax, or email to the FOC. When reporting an assumption, the Lender

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and Social Security Number(s) (SSN) of the assumptor(s).

must supply the Title I case number, the name of the original Borrower and the name(s)

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d. Modification of a Current Loan

- A Lender may enter into a modification agreement with a Borrower without prior permission from HUD on a Loan that is current. A modification agreement:
 - requires a written agreement signed by the Borrower;
 - need not be recorded;
 - may only decrease the interest rate;
 - must not advance new funds; and
 - does not require any further insurance reporting to HUD, but all documentation of the modification must be submitted if an insurance claim is filed.

e. 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.

i. Contact with the Borrower

Within 17 Days of the missed payment, but before taking action to accelerate the maturity of the Loan, the Lender or its agent must contact the Borrower and any comaker or Cosigner, either in a face-to-face meeting or by telephone, to discuss the reasons for the Default and to seek its cure. If the Borrower and the co-makers or Cosigners cannot be located, will not discuss the Default, or will not agree to its cure, the Lender may proceed to take action. The Lender must document the results of its efforts to contact the Borrower and any co-maker or Cosigner.

ii. Loss Mitigation Tools

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.

(A) Refinance

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.

(B) Modification Agreement

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:

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1 2 3 4 5 6	 may increase or decrease the monthly payment amount; cannot increase the interest rate or loan term; cannot include new funds; and does not require any further insurance reporting to HUD; however, all documentation concerning the modification must be submitted if an insurance claim is filed.
7	(C) Repayment Plan
8 9 10 11 12	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.
13 14 15 16 17	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 ensure 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.
18	(D) Partial Payments
19	(1) Definition
20 21 22 23	A Partial Payment refers to a payment of any amount less than the full amount due on the Loan at the time the payment is tendered, including Late Charges and amounts advanced by the Lender on behalf of the Borrower (such as for the payment of taxes).
24	(2) Standard
25 26 27	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.
28 29 30 31 32	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.
33 34 35 36 37	 If the Lender did not agree to accept Partial Payments, it must 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.

1 2 3 4 5 6 7	 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).
8	(E) Assumption
9 10	If the Borrower cannot afford to continue to make Loan Payments and elects to sell the home, the Lender may approve an <u>assumption</u> of the Loan.
11	(F) Short Sale
12	The Lender may agree to release its lien on the home to facilitate the Borrower's sale
13 14	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
15	sales price is not less than the value of the home as determined by a current HUD
16	approved appraisal, and provided that the Borrower remains legally liable for the
17	remaining amount owed on the Loan. A short sale release of lien, with release of
18	liability of the Borrower, requires prior approval from HUD.
19	iii. Notice of Default and Acceleration
20	The Lender must provide each Borrower with written notice that the Loan is in Default
21 22	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 <u>contact the Borrower</u> .
23	Exceptions to sending the notice include when the Borrower agrees to a modification
24	agreement or repayment plan, is in bankruptcy, or has voluntarily surrendered the
25	Manufactured Home.
26	In addition to complying with applicable state or local notice requirements, the notice
27	must be no smaller than size 12 font Times New Roman, sent by certified mail, and
28	contain:
29	 a description of the obligation or security interest held by the Lender;
30	• a statement of the nature of the Default and of the amount due to the Lender as
31	unpaid principal and earned interest on the Note as of the date of the notice;
32	a demand upon the Borrower either to cure the Default or to agree to a
33	modification agreement or a repayment plan, no later than 30 Days from the date
34	of the notice;
35	• a statement that upon the Borrower's failure to comply with the demand, the
36	maturity of the Loan is accelerated and full payment of all amounts due is then
37	required; and

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1 2 3	 a statement that if the Default persists the Lender will report the Default to an appropriate credit reporting agency; and the following statement:
3	• the following statement:
4	This loan is insured against nonpayment by the federal government. If you do
5	not repay the loan as agreed, we may assign the debt to the U.S. Department of
6	Housing and Urban Development (HUD) for collection. If your loan is assigned
7	to HUD, your failure to pay the debt in accordance with the terms set by HUD
8	may result in any or all of the following actions:
9	 Seizing your federal income tax refunds, Social Security benefit payments,
10	federal employee wages or retirement, or other federal payments,
11	 Administrative garnishment of your wages if you are not a federal
12	employee (which does not require a judgment and court order to
13	implement),
14	• Referring the debt to the U.S. Department of Justice, U.S. Department of
15	the Treasury, or to private collection agencies,
16	 Your liability for penalties and administrative costs that HUD may impose
17	as authorized by Section 3717 to Title 31 of the United States Code
18	(including collection fees charged by Justice, Treasury or private
19	collection agencies.)
20	iv. Notice to Credit Reporting Agency
21	If the loan maturity is accelerated and the Loan is not reinstated, the Lender must report
22	the Default to one or more of the national credit reporting agencies (i.e. Equifax,
23	Experian, Innovis, or TransUnion).
24	v. Reinstatement of the Loan
25	The Lender may rescind the acceleration of maturity and reinstate the Loan only if the
26	Borrower brings the Loan current, executes a modification agreement, or agrees to an
27	acceptable repayment plan.
28	vi. Bankrupt or Deceased Borrower
29	When a Lender becomes aware that a Borrower has filed bankruptcy or has died, the
30	Lender must take prompt, effective action to protect the Lender's interest as holder of the
31	Loan.
32	(A) Bankruptcy
33	(1) Standard
34	The Lender must file a timely proof of claim with the bankruptcy court, unless the
35	court notifies the Lender that the Borrower has no assets. A proof of claim must
36	be filed even if the Borrower is current on the Title I Loan. Since the Lender must

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1 2 3	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.
4 5	If the bankruptcy is closed, the Lender must have evidence of the bankruptcy discharge or dismissal.
6 7 8 9	In a case where relief from the stay has been granted for the purpose of repossessing the home, the Lender must file a deficiency claim for the unsecured balance no later than 180 Days following filing of the petition to ensure their deficiency claim is not barred.
10	(2) Required Documentation
11	The case binder must contain evidence of bankruptcy discharge or dismissal.
12	(B) Deceased Borrower
13 14 15 16	The Lender must confirm the death of a Borrower via a death certificate or other reasonable evidence. The 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.
17	f. Servicing of Manufactured Home Lot Loans and Combination Loans
18 19	Servicing of Manufactured Home Lot Loans and Combination Loans are subject to the requirements for servicing Manufactured Home Loans with the following exceptions.
20 21 22 23	Upon acceleration of the maturity on a Defaulted Manufactured Home Lot Loan or Combination Loan, the Lender must proceed against the loan security by foreclosure for Property classified as real estate (i.e., the lot, and if applicable, the Manufactured Home), and repossess any Manufactured Home classified as Personal Property.
24 25 26	Once the Lender obtains the Property through foreclosure and/or repossession if applicable, the Manufactured Home and lot securing a Combination Loan may be sold in a single transaction or separately, without prior approval from HUD.
27	Claim Submission and Payment
28 29 30 31	Claim submission and payment for Manufactured Home Lot Loans and Combination Loans are subject to the requirements stated in <u>Title I Claims for Manufactured Homes</u> and <u>Property Disposition of Manufactured Homes</u> . The Lender must submit the claim that includes the sum of the following amounts:
32	 state or local real estate taxes, prorated to the date of disposition;
33	• lot rents, prorated to the date of disposition of the Property;
34 35	 municipal water and sewer fees, prorated to the date of disposition of the Property; liens, prorated to the date of disposition of the Property;

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- 2. Title I Manufactured Home Loan Program
- special assessments that are noted on the loan application or become liens after the insurance is issued, prorated to the date of disposition of the Property;
 - premiums for hazard insurance on the Manufactured Home, prorated to the date of disposition of the Property; and
 - transfer taxes required by any state or local government.
- HUD may reimburse up to 90 percent of the claim submitted for Manufactured Home Lot Loans and Combination Loans.



IV. CLAIMS AND DISPOSITION

- 2 A. TITLE II CLAIMS
- 3 B. TITLE II DISPOSITION
- 4 C. TITLE I CLAIMS
- 5 1. Title I Claims for Property Improvement
- In order to receive insurance benefits, Lenders must comply with the claim procedures outlined below.
- 8 a. Claim Filing Deadline
- 9 A property improvement claim must be filed no later than nine months after the date of
- Default. The date of Default for filing a claim is 30 Days after the oldest unpaid Loan
- Payment.

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- Exceptions to the claim filing deadline include:
 - a bankruptcy filing or any other litigation related to the Loan, if initiated prior to the end of the claim filing deadline. The claim must be filed within three months of the end of the litigation;
 - management control of the Lender is assumed by a federal or state agency (i.e., the FDIC):
 - the Borrower experiences a financial hardship directly attributable to a major disaster declared by the President;
 - the Lender can show clear evidence the delay in claim filing was in the interest of HUD; and
 - a Borrower is in "military service" as defined in the SCRA 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.
 - b. Claim Documentation
- The Lender must submit the claim package for insurance benefits using form HUD-637, *Title*
- 27 I Claim for Loss. The form must be signed by an authorized officer of the Lender under
- applicable criminal and civil penalties for fraud and misrepresentation.
- The claim package must include all applicable documents listed on form HUD-637.
- Claims must be submitted to HUD's FOC.
- 31 i. Standard
- The claim submission must contain the original signed documents for:
- the Note:

2 3 4 5	 the Security Instrument; assignments; assumption agreements; releases of liability for repayment of the Loan; and any related documents and forms.
6 7 8 9	Additional documents must be provided to enable HUD to (1) evaluate the Lender's origination, underwriting, and servicing of the Loan; (2) calculate the claim amount; or (3) continue effectively servicing the Loan (i.e., the payment history and collection history).
10 11 12	Electronic signatures are permitted provided they are in compliance with all requirements of the Electronic Signatures in Global and National Commerce (E-SIGN) Act, 15 U.S.C. § 7001 et seq.
13	ii. Missing Document Statement
14 15 16 17 18 19 20 21 22	 The Lender may submit a copy in lieu of an original document if an officer signs a statement that explains why the original is missing and attesting to the following: The copy is true and correct. The obligation is valid and enforceable. The obligation has not been satisfied, paid or canceled. The documentation provided is sufficient to enforce the obligation in the jurisdiction. The Loan will be repurchased, at any time, if HUD is unable to enforce the obligation.
23	iii. Bankruptcy and Probate
24 25 26	If a Borrower has declared <u>bankruptcy</u> or is <u>deceased</u> , the claim file must contain all official notices, copies of any proof of claim or other documents filed by the Lender to protect its rights, and any other relevant documentation.
27	iv. Assignment of Lenders' Rights to the United States
28 29 30 31 32 33	Upon filing the insurance claim, the Lender must assign its entire interest in the loan Note (or in a Judgment in lieu of the Note), in any security held, and in any claim filed in probate, bankruptcy or insolvency proceedings, to the United States. If the security interest has been assigned to the United States, the assignment must be recorded prior to filing the insurance claim, unless HUD determines that recordation by the Lender is impractical.
34	(A) Form of Assignment
35	The assignment of the loan Note must be completed in the following form:

1 2 3	All rights, title, and interest of the undersigned is hereby assigned (without warranty, except that the loan qualifies for insurance) to the United States of America (HUD).
4	(Financial Institution)
5	By:
6	Title:
7	Date:
8 9	The assignment of other documents must be in a form that meets the requirements of the local jurisdiction or recording authority.
10	(B) Valid and Enforceable When Assigned
11 12 13 14 15	The Loan obligation must be valid and enforceable against the Borrower when assigned to the United States. If HUD has reason to believe that an obligation is not valid or enforceable, the claim may be denied (or HUD may demand repurchase if a claim is already paid). The Lender may resubmit the claim after obtaining a valid and enforceable Judgment for the unpaid balance of the Loan.
16	(C) Assignment Delay at a Recorder's Office
17 18 19 20 21 22 23 24	The Lender must wait until the recorded assignment is returned from the Recorder's Office before sending the claim package to HUD. If there is a delay in receiving the original recorded lien assignment back from the Recorder's Office, the Lender must not delay its claim submission to HUD past the claim filing deadline . In this situation, the Lender must send the claim package to HUD with the following documentation in lieu of the original, recorded assignment: a copy of the executed, unrecorded assignment; reasonable evidence that the assignment was sent for recording before the
25 26 27 28	expiration of the claim-filing deadline. Examples of evidence include a check to pay the local recorder, a dated receipt from the recorder, or proof of mailing (i.e., stamped certified mail receipt); and • a statement signed by an authorized officer of the Lender stating:
29 30 31 32 33 34 35	 The copy of the executed assignment is a true and exact copy of what was sent to the recorder. The recorded copy of the lien assignment could not be obtained before the end of the claim filing period due to delays in the recorder's office. The Lender will promptly forward the lien assignment to HUD upon receipt of the recorded original. The Lender will repurchase the Loan at any time if this delay results in
36 37	harm to HUD or if the Lender fails to send the recorded lien assignment to HUD in a timely fashion.

1 2 3		When the original lien assignment is received from the Recorder's Office, it should be identified by the FHA case number (and by the claim number if available) and sent to the <u>FOC</u> .
4	c.	Calculation of Insurance Claim Payment
5		i. Reserve Account
6 7 8 9		Reserve Account refers to 10 percent of the amount disbursed, advanced, or expended by the Lender in originating or purchasing eligible Loans registered for insurance under Title I, less the amount of all insurance claims approved for payment in connection with losses on such Loans.
10 11		The claim payment is calculated as 90 percent of the valid claim amount, not to exceed the amount remaining in a Lender's insurance reserve account.
12 13 14 15 16 17 18 19		A valid claim includes: • the unpaid loan obligation; • interest on the unpaid loan obligation; • uncollected court costs; • attorney's fees; • expenses for recording assignments; and • the cost of flood insurance when required to force place for compliance with the National Flood Insurance Program (NFIP).
20		ii. Unpaid Amount of the Loan Obligation
21		(A) Definition
22 23 24		The unpaid amount of the loan obligation refers to the net unpaid principal and the uncollected interest earned to the date of Default, calculated according to the Actuarial Method.
25 26 27 28 29	~	Actuarial Method refers to the method of allocating payments made on a Loan between the outstanding balance of the principal amount borrowed and the interest due on a loan obligation, under which a payment is applied first to the accrued interest, and any remainder is subtracted from, or any deficiency is added to, the unpaid balance of the obligation.
30		(B) Standard
31 32 33 34		If the Lender obtained HUD's prior approval to <u>proceed against the loan security</u> and later files a claim for any remaining loss, the unpaid amount of the Title I loan obligation must be reduced by the proceeds received from the Property's sales or disposition, after deducting the following:
35		 the balances due on any obligations senior to the Title I obligation;

1. Title I Claims for Property Improvement

2	• customary and reasonable expenses for foreclosure and disposition, as determined by HUD;
3	 the interest on the unpaid amount of the loan obligation from the date of
4	Default to the date of the claim's initial submission for payment plus 15 Days
5	calculated at the rate of 7 percent per annum. Interest will not be paid for any
6	period greater than nine months from the date of Default;
7	• uncollected court costs, including fees paid for issuing, serving, and filing a
8	summons;
9	 attorney's fees on an hourly or other basis for time actually expended and
10	billed, not to exceed \$500; and
11	 expenses for recording an assignment of security to the United States, if
12	applicable.
13	d. Claim Filing Supplies
14	i. Claim Folders
15	Lenders must obtain supplies of form HUD-3432, <i>Title I Claim Folder</i> , from the HUD
16	Direct Distribution Center. Lenders may order the folders from the Direct Distribution
17	Center by phone at (800) 767-7468, or email OnDemand.Mail@hud.gov.
18	ii. Packaging and Mailing the Claim
19	The form HUD-637, Title I Claim for Loss, has a checklist of the most common
20	documents to accompany the claim. Each claim must be submitted in a green Title I
21	Claim Folder (form <u>HUD-3432</u>) to HUD's FOC. HUD's FOC can provide these folders
22	as well as labeled yellow file tab inserts to help sort the documentation.
23	iii. Premiums Branch (Title I Insurance Processing)
24	The Lender must submit the following Title I claim-related requests to the Title I
25	Insurance Processing Branch:
26	 initial Title I claim submissions;
27	 resubmittals of claims;
28	 appeals of claim denials; and
29	• waiver requests.
30	For assistance or questions regarding claims, Lenders may contact the Title I Insurance
31	Processing Branch in the following ways:
32	• call the Title I Insurance Processing Help Line at (800) 669-5152 extension 2832;
33	• send a fax to (202) 485-9035;
34	send an email to title_one_help@hud.gov; or

1. Title I Claims for Property Improvement

1		• in writing to:
2 3 4 5 6		U.S. Department of Housing and Urban Development Financial Operations Center Attention: Title I Insurance Processing Branch 52 Corporate Circle Albany, New York 12203
7	e.	Method and Notification of Payment
8 9		ne <u>Debt Collection Improvement Act of 1996</u> directs federal agencies to disburse funds via T.
10		i. Electronic Funds Transfer
11 12		In order to receive claim payments, Lender must have completed the SF 3881 form, <i>ACH Vendor/Miscellaneous Payment Enrollment</i> .
13 14 15 16 17		To wire payments to a Lender's bank account, HUD must receive a completed SF 3881 form. Processing this form takes several weeks as does testing through the Federal Reserve System. It is advisable for a Lender to have the form on file with HUD before filing a claim. The form can be obtained from the FOC. After completing the SF 3881 form, Lenders must mail it to the address on the form.
18		ii. Notification and Identification of Claim Payment
19 20 21 22		Upon claim payment, a record will be attached to each EFT payment that includes the FHA case number and the Lender's loan number reported to HUD when the Loan was first reported for insurance. Details of the claim status and claim payment of a Loan can be found online using FHAC.
23		iii. Lender Responsibilities <u>after</u> Insurance Claim Payment
24 25 26		The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.
27 28		After claim payment, the Lender must refer any legal notices, inquiries, correspondence, or payment to HUD's FOC.
29	f.	Supplemental Claim
30		i. Definition
31 32 33		A Supplemental Insurance Claim refers to a claim request for additional reimbursement. A supplemental claim may be filed for reimbursable costs where the receipts were unavailable or not included with the initial claim.

	1. Title I Claims for Property Improvement
1	ii. Standard
2 3	A supplemental claim must be filed within six months after the date of the payment on the initial claim.
4	iii. Required Documentation
5 6 7	The Lender must submit a supplemental claim on form HUD-637, <i>Title I Claim for Loss</i> . Lenders must provide an explanation for additional reimbursement, along with supporting documentation and receipts.
8 9	A fee of \$100 payable to HUD must accompany each supplemental claim. The \$100 will be returned to the Lender if the supplemental claim was due to HUD error.
10	g. Terminating Title I Premium Billing
11 12 13 14 15	 Title I Lenders are obligated to pay the loan insurance premium on any insured Loan until it matures, or until the Loan is prepaid in full or an insurance claim is filed. This obligation continues even if: the Lender has exhausted its insurance coverage reserve account, provided that the Loan is current; and/or the Lender decides to terminate its Title I Contract of Insurance.
17 18 19	Terminated Title I Lenders may not originate new Title I Loans but remain obligated to pay FHA insurance premiums and to perform obligations under the Contract of Insurance for the existing Title I Loans it holds.
20	h. Abbreviated Claim
21	i. Standard
22 23 24 25 26	The abbreviated filing process allows insurance termination on Defaulted Loans when there is no expectation of claim payment. The Lender may submit an abbreviated claim to terminate premium billing when: • the Loan is in Default and no Reserves are left; or • the claim would not be payable for other reasons.
27	ii. Required Documentation
28 29 30 31 32	 The Lender must submit: a form HUD-637, <i>Title I Claim for Loss</i>, Part II with items 1-10 and 15-18 completed. The Lender, or an agent of the Lender with proper power of attorney, must sign the form HUD-637, with their full name and title included in box 16; a certification, stating that the claim is being filed to stop premium charges, no

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claim payment is expected and no claim resubmission will occur. The Lender, or an agent of the Lender with proper power of attorney, must sign the certification.

1 2	Please also indicate that there are no Reserves, or why no claim payment is expected;
3 4	 copies of the Notices of Default and Acceleration. In the event that the Lender could not issue the notice due to bankruptcy, include documentation of the
5	bankruptcy filing;
6 7	 documentation verifying that the Lender has updated credit bureau reporting to show Default has occurred; and
8 9 10 11	 a copy of the Note and Security Instrument (where applicable). No assignment to HUD is required. If the Lender does not have a copy of the Note, the Lender may send HUD a Missing Document Statement for the Note along with the copy of the Security Instrument, if the Security Instrument details the terms of the Loan.
12 13	Lenders must mail the abbreviated claim package to the FOC. To expedite processing, the Lender must use an attention line of "Abbreviated Claim Filing."
14	iii. HUD Review of Abbreviated Claim
15 16 17	HUD will review the documentation to ensure that the Loan is a Title I Loan previously reported for insurance and that a Default has occurred. Once confirmed, HUD will accept the abbreviated claim filing and deny the claim benefits since it is not payable.
18 19 20	This claim denial will stop subsequent insurance charges from being billed. Lenders can confirm termination of billing by reviewing its next monthly Title I billing statement. These Loans will appear in the "RENEWAL CANCELLATION" section of the bill.
21	i. Denial of Insurance Claims
22 23	HUD may deny a claim for insurance in whole or in part based upon a violation of the regulations.
24	i. Invalid Debt
25 26 27 28	If the enforceability of the lien can be challenged, the Lender can obtain a Judgment against the Borrower and assign the Judgment to HUD. For example, improper wording of or method of mailing a legal notice may call into question whether a deficiency debt is valid. Acquiring a Judgment will prove the validity of the debt.
29	ii. Missing or Incomplete Work Description
30	HUD may deny the claim if the supporting documentation regarding the property
31	improvements does not include sufficient detail to confirm that the loan proceeds were
32	used solely for property improvements (and eligible fees/charges), that the costs were
33	reasonable, and that all improvements were eligible. HUD will review the Completion
34 35	Certificate, the inspection report, and any lender non-compliance reports in addition to the contract, Work Write-Up, or other written description of the proposed improvements.
36	HUD may pay a claim despite a poor work description if the inspection confirms that 100
37	percent of the proceeds went to eligible improvements (and eligible fees/charges), but

1. Title I Claims for Pr	operty Improvement
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1 2		will deny a claim with a poor work description and other documentation that indicates misuse of loan proceeds.
3		iii. Claim Filing Past the Deadline
4 5 6		If a claim is filed after the <u>claim filing deadline</u> , the Lender must request a waiver to document that the late filing was unavoidable. Note that a servicing error by the Lender is not considered a valid basis for a waiver.
7		iv. Unresolved Borrower Complaints
8 9 10 11 12 13		HUD may deny a claim if there are unresolved valid borrower complaints against the Dealer or the Lender because a Loan with an unresolved complaint may not be valid and enforceable against the Borrower. The Lender may resubmit the claim with additional documentation regarding the resolution of the complaint or if the Lender obtains a Judgment against the Borrower. Obtaining a Judgment against the Borrower will prove the validity of the debt.
14		v. Legal Documents not Originals
15 16		The Lender must file a <u>Missing Document Statement</u> if the Lender cannot locate the original Note and/or Assignment of Note.
17		vi. Evidence of Borrower's Ownership Interest in the Property
18		The case binder must contain evidence of Borrower's ownership interest in the Property.
19		vii. Notice of Default and Acceleration Non-compliance
20 21		HUD may deny the claim when the <u>Notice of Default and Acceleration</u> does not comply with requirements.
22		viii. Missing or Incorrect Information on Form HUD-637, Title I Claim for Loss
23 24 25		The Lender will be notified by the FOC if a revised form HUD-637 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.
26	j.	Resubmitted Claims
27		i. Standard
28 29		The Lender must resubmit the claim to HUD within six months of the date of HUD's denial letter.
30		ii. Required Documentation
31		A resubmitted insurance claim package must contain the following:

1	• an updated form HUD-637;
2	 documentation and explanation to address reasons for denial; or
3	• explanation on why HUD's requests for additional documentation or explanations
4	do not apply to this particular Loan.
5	k. Appeals
6	The Lender may appeal a denial of insurance benefits. The appeal must be sent to the FOC
7	for processing with the claim package. Should the FOC uphold the denial, the FOC will
8	forward the appeal to the Office of Single Family Program Development, Home Mortgage
9	Insurance Division for review. The Home Mortgage Insurance Division will communicate
10	the final decision to the FOC, who will respond to the Lender. An appeal request must
11	include the following:
12	• the regulation in dispute;
13	• the Lender's interpretation of the regulation;
14	• why HUD's current interpretation is incorrect;
15	• any other documentation supporting the Lender's interpretation of the regulation;
16 17	• actions the Lender took to meet the Lender's interpretation of the regulations; and
1 /	 evidence in the claim binder demonstrating these actions.
18	l. Rescinding or Repurchasing a Claim
19	i. Voluntary Recall of a Claim
20	(A) Rescinding a Claim
21	The Lender may recall a claim at any point prior to claim payment. The rescission
22	request must be sent in writing to the FOC and must clearly identify which claim is
23	being recalled. The request must be in writing and signed by an authorized officer of
24	the Lender.
25	(B) Repurchasing a Claim
23	(b) Reput chasing a Claim
26	A Lender may repurchase a claim for any reason if the claim payment amount is
27	returned within 31 Days of the claim payment date. After 31 Days, HUD retains the
28	right to determine whether it is in the best interest of HUD to return the claim. The
29	repurchase request must be sent to the FOC and must clearly identify which claim is
30	being recalled. The request must be in writing and signed by an authorized officer of
31	the Lender. If repurchase is approved, the Lender must send a separate payment equal
32	to the amount of the claim to the lockbox address for Title I payments.
33	ii. Involuntary Repurchase
34	FHA may demand that the Lender repurchase a Loan when the Note is invalid or
35	unenforceable, or for violation of FHA's regulations. FHA's demand for repurchase may

occur up to two years after the date that the claim is paid.

1 2 3 4	In the case of fraud or misrepresentation on the part of the claimant in the origination or with respect to the claims process, FHA may demand repurchase at any time with no time limit. Consistent with existing practice, when a Loan is repurchased, FHA will return the claim file to the Lender.
5 6 7 8 9	Failure to return a claim payment after demand could result in interest, administrative costs and penalties being assessed against the Lender. Continued failure to pay may result in referral to HUD's Mortgagee Review Board (MRB), to the Department of the Treasury, or to the Department of Justice for further action to enforce collection of the debt.
10	m. Lender Responsibilities Pending Insurance Claim Payment
11 12 13	If an insurance claim is pending payment, the Lender must not pursue active collections against the Borrower, but must take all steps necessary to protect the interests of HUD and the Lender.
14 15	The Lender is responsible for keeping information current for a claim that has already been submitted, but not yet paid.
16	i. Legal Notices
17 18	The Lender is responsible for answering <u>bankruptcy</u> , <u>foreclosure</u> and other legal notices and forwarding the information to HUD.
19	ii. Borrower Payments
20 21 22	If a Borrower sends a payment while an insurance claim is pending, the Lender must accept it. The Lender then may either retain the payment and submit an amended form HUD-637, or hold the payment and forward it to the FOC after HUD pays the claim.
23 24 25	If a Lender opts not to submit an amended form HUD-637, the Lender may contact the FOC to advise that a payment is being held and request that processing of the claim be expedited so that the payment can be forwarded to the FOC.
26	iii. Release of Liability
27 28 29 30 31 32	The Lender must not release the Borrower or any co-maker or Cosigner from liability under the Note unless in connection with an <u>assumption</u> , or unless approved in advance by HUD. The Lender may seek approval from HUD by sending a written request to the <u>FOC</u> . The Lender's submission to the FOC must include: • information regarding the proposed release of liability; • explanation as to why the Borrower is seeking release from liability;
33	 the Lender's recommendation; and

documentation that supports why HUD should approve the request.

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2. Title I Claims for Manufactured Homes

- 2 Since HUD does not take the Property upon Default, the claim paid by HUD is based on the
- 3 deficiency balance. HUD requires the Lender to sell the Property prior to submitting a claim and
- 4 requires the claim payment to be based on the best price obtainable.
- 5 If the repossessed Property is not covered by hazard or flood insurance and is subsequently
- damaged, the Lender bears responsibility for the loss. The appraised value, for claim purposes, 6
- 7 will be based on the retail value of comparable homes in undamaged condition, without any
- 8 deduction for such damage.

a. Pre-Claim Requirements

- 10 The Lender may not file a claim until all default servicing remedies stated in Loan Default
- and Loss Mitigation have been applied. This servicing includes sending the Notice of Default 11
- and Acceleration, repossessing the Manufactured Home, appraising the home, sending the 12
- 13 Notice of Sale, and selling the home.

b. Maximum Claim Filing Deadline

i. Definition

- 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 17
- installments in the order in which they became due, advance the date of the oldest unpaid 18
- 19 installment.

ii. Standard

21 The Lender must file a claim not later than three months after the date of sale of the 22

Property securing the Loan, but not to exceed 18 months after the date of Default.

iii. Exception to Claim Filing Deadline

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 deadline. The claim must be filed within three months of the end of the litigation;
- management control of the Lender is assumed by a federal or state agency (e.g., the Federal Deposit Insurance Corporation (FDIC));
- the Borrower experiences 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; or

1 2 3	 military service by the Borrower as defined in the Servicemembers Civil Relief Act (SCRA) 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.
4	c. Form HUD-637, Title I Claim for Loss
5	A claim for insurance benefits must be made on form HUD-637, Title I Claim for Loss. All
6	applicable documents indicated on the form must be included with the claim package, as well
7 8	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
9	penalties for fraud and misrepresentation.
10	d. Claim Documentation
11	The Lender must fully document the insurance claim file and include originals of all signed
12	documents in the submission package. These documents include, but are not limited to the:
13	• loan application;
14	• Note;
15	 Notice to Borrower of HUD's Role;
16	• Security Instrument;
17	 Note assignment;
18	 assumption agreement; and
19	Placement Certificate.
20	i. Missing Document Statement
21	For missing required original documents, the Lender must include in the claim file a
22	Missing Document Statement along with the copy of the original executed document(s).
23	The statement must be signed by an authorized official of the Lender and include an
24	explanation as to why the original document is not available. In addition, the statement
25	must also attest to the following:
26	• The copy is true and correct.
27	• The obligation is valid.
28	 The obligation has not been satisfied, paid, or cancelled.
29	 The documentation provided is sufficient to enforce the obligation.
30	 The Loan will be repurchased, at any time, if HUD is unable to enforce the
31	obligation.
32	ii. Repossession Legal Notices
33	The claim file must contain copies of all necessary legal notices sent regarding the
34	repossession and sale of the Manufactured Home. Any proof related to the delivery of

such notices should also be included.

1 iii. Bankruptcy and Probate 2 In the case of bankruptcy or death of a Borrower, the claim file must contain all related official notices and documents. Required documentation includes a copy of any proof of 3 claim or other documents filed by the Lender to protect its rights. 4 5 iv. Recourse Agreement The Lender must exercise any right they have under a recourse agreement to have a 6 7 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 8 9 not possible. 10 v. Assignment of Lenders' Rights to the United States 11 (A) Note Assignment The claim package must include an assignment of the Lender's entire interest in the 12 loan Note to the United States. The assignment of the loan Note must be completed in 13 14 the following format: 15 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 16 17 America (HUD). 18 (Financial Institution) 19 20 Title: 21 Date: (B) Assignment of Security Instrument 22 23 In most cases, Lenders will not assign the Security Instrument to HUD. Instead, Lenders must repossess and attempt to resell the Manufactured Home before 24 submitting a claim to HUD. 25 26 If 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 27 Judgment, or other security held by the Lender, must be assigned to the United States. 28 The document for such assignment(s) must be in a format that meets the requirements 29 of the local jurisdiction or recording authority. The assignment must identify HUD as 30 the assignee and the FHA Title I case number. 31 32 The security assignment must be recorded prior to filing the insurance claim and the 33 original recorded assignment document must be included in the claim package. If the

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Title I Claims for Manufactured Homes 1 Lender submitted the security assignment for recording in a timely fashion, but 2 cannot provide the recorded document with the claim package due to delay at the 3 recorder's office, or other circumstances beyond the Lender's control, the Lender 4 must still file its claim prior to the claim filing deadline. Instead of the recorded 5 assignment, the claim package must include the following documents: 6 a copy of the executed, unrecorded assignment; 7 reasonable evidence that the assignment was sent for recording before the 8 expiration of the claim filing period. Reasonable evidence includes a copy of 9 the dated check used to pay the local recorder, a dated receipt from the local 10 recorder for the recording fees, or proof of mailing (e.g., certified slip, green 11 card) of assignment to local recorder; and a statement signed by an authorized official of the Lender stating: 12 13 the copy of the executed assignment is a true and exact copy of what was sent to the recorder's office: 14 the recorded copy of the lien assignment could not be obtained before the 15 16 end of the claim filing period due to delays in the recorder's office; and the Lender will promptly forward the lien assignment to HUD upon 17

(C) Valid and Enforceable When Assigned

receipt of the recorded copy.

The Loan obligation must be valid and enforceable against the Borrower when assigned to the United States. If HUD has reason to believe that an obligation is not valid or enforceable, the claim may be denied (or HUD may demand repurchase if a claim is already paid). The Lender may resubmit the claim after obtaining a valid and enforceable Judgment for the unpaid balance of the Loan.

e. 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		
	Repossession and Preservation Costs		
	Sales Commission		
Subtract:	Best Price Obtainable		
	Credit Due to the Borrower		
Equals	Lender Loss		
Subtract:	Coinsurance (10%)		
Equals	Claim Payment (90% of Lender Loss)		

f. Loan Balance as of Default Date

The date of Default is 30 Days after the due date of the first unpaid installment. Any amount received from a Partial Payment to a full monthly installment must be applied to the Loan and advance the next payment due date and the associated date of Default.

- 1 The loan balance as of the date of Default is the balance as of the last credited payment plus
- 2 accrued interest up to 30 Days past the due date of the first unpaid installment.
- 3 The loan balance at Default is calculated by posting the borrower payments using simple
- 4 interest.

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g. Interim Interest

- 6 Interim Interest refers to the interest the Lender earns from the date of Default to the claim
- submission date on form HUD-637, *Title I Claim for Loss*, plus 15 Days.
- 8 HUD pays interim interest on the loan balance, up to a maximum of nine months of interest.
- 9 The interim interest rate is the Current Value of Funds Rate, as determined and posted by the
- Department of the Treasury.

h. Repossession and Preservation Cost

- 12 Costs necessary to repossess the home and maintain the home while awaiting sale include but are not limited to:
 - the fee for the condition report;
 - the fee for the appraisal;
 - the lot rent;
 - unpaid/delinquent property taxes, provided that:
 - o documentation is contained in the case binder from the local authority showing the tax amount that is past due;
 - o the taxes are legally required to be paid in order for the Lender to repossess and/or foreclose on the collateral; and
 - o the taxes are for the Property identified as secured on the Security Instrument;
 - moving the home to a sales lot (not to exceed \$1,000 per module i.e., \$1,000 for a single-wide, \$2,000 for a double-wide);
 - the attorney's fees (not to exceed \$1,000);
 - court costs (e.g., filing fee, fee for serving a summons);
- changing locks;
 - winterizing; and
- hazard or flood insurance if obtained by the Lender after repossession.

30 i. Sales Commission

- 31 Sales commission may be reimbursed when paid to a third party to sell the repossessed home.
- The commission for selling the home must not exceed:
 - 10 percent of the sales price if the home is sold on the original site; or
- 7 percent of the sales price if the home is moved and sold at another location.

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l j. Best Price Obtainal

The best price obtainable must be subtracted in the claim calculation.

k. Credit due to Borrower

- 4 Credit Due to Borrower refers to money paid by the Borrower that has not been posted to the
- loan balance. Credit Due to Borrower must be disclosed on form HUD-637, *Title I Claim for*
- 6 Loss. Credited funds include:
 - positive escrow balance;
 - money in suspense; and
- Partial Payments.

l. Claims Submission

i. Packaging the Claim

- Form HUD-637, *Title I Claim for Loss*, has a checklist of the most common documents to
- accompany the claim.
- Each claim must be submitted in a green Title I Claim Folder (form HUD-3432) to
- 15 HUD's FOC. HUD's FOC can provide these folders as well as labeled yellow file tab
- inserts to help sort the documentation.

ii. Mailing and Tracking the Claim

- The claim must be mailed to the attention of the Endorsement and Claims Processing
- Branch at the FOC. Lenders must access FHAC to verify HUD's receipt of the claim
- 20 package and issuance of claim payment.

Title I Insurance Processing Branch

- The Lender must submit the following Title I claim-related requests to the Title I
- 23 Insurance Processing Branch:
 - initial Title I claim submissions;
 - resubmittals of claims;
 - appeals of claim denials; and
- waiver requests.
- For assistance or questions regarding claims, Lenders may contact the Title I Insurance
- 29 Processing Branch in the following ways:
- call the Title I Insurance Processing Help Line at (800) 669-5152 extension 2832;
- send a fax to (202) 485-9035;
- send an email to title_one_help@hud.gov; or

1	• in writing to:
2 3 4 5 6	U.S. Department of Housing and Urban Development Financial Operations Center Attention: Title I Insurance Processing Branch 52 Corporate Circle Albany, New York 12203
7	m. Updating the Insurance Claim
8 9	A Lender is responsible for keeping information current for a claim that has already been submitted, but not yet paid.
10	n. Method and Notification of Payment
11 12	The <u>Debt Collection Improvement Act of 1996</u> directs federal agencies to disburse funds via Electronic Funds Transfer (EFT).
13	i. Electronic Funds Transfer
14 15	In order to receive claim payments, the Lender must have completed SF 3881 form, <i>Automated Clearing House (ACH) Vendor/Miscellaneous Payment Enrollment Form.</i>
16 17 18 19 20	To wire payments to a Lender's bank account, HUD must receive a completed SF 3881 form. Processing this form takes several weeks as does testing through the Federal Reserve System. It is advisable for a Lender to have the form on file with HUD before filing a claim. The form can be obtained from the FOC. Lenders must mail the completed SF 3881 form to the address on the form.
21	ii. Notification and Identification of Payment
22 23 24 25	Upon claim payment, a record will be attached to each EFT payment that includes the FHA case number and the Lender's loan number reported to HUD when the Loan was first reported for insurance. Details of the claim status and claim payment of a Loan can be found online using FHAC.
26	iii. Lender Responsibilities after Insurance Claim Payment
27 28 29	The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.
30 31 32	The Lender must promptly refer any inquiries or communications from the Borrower or others regarding the Loan to HUD's FOC. Lenders must also submit all legal notices, correspondence, or payment to HUD's FOC.

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o. Supplemental Claim

i. Definition

- 3 A Supplemental Insurance Claim refers to a claim request for additional reimbursement.
- 4 A supplemental claim may be filed for reimbursable costs where the receipts were
- 5 unavailable or not included with the initial claim.

ii. Standard

A supplemental claim must be filed within six months after the date of the payment on the initial claim.

iii. Required Documentation

- The Lender must submit a supplemental claim on form HUD-637, *Title I Claim for Loss*.
- Lenders must provide an explanation for additional reimbursement, along with
- supporting documentation and receipts.
- A fee of \$100 payable to HUD must accompany each supplemental claim. The \$100 will
- be returned to the Lender if the supplemental claim was due to HUD error.

p. Terminating Title I Premium Billing

- Title I Lenders are obligated to pay the loan insurance premium on any insured Loan until it matures, or until the Loan is prepaid in full or an insurance claim is filed. This obligation continues even if:
 - the Lender has exhausted its insurance coverage reserve account, provided that the Loan is current; and/or
 - the Lender decides to terminate its Title I Contract of Insurance.
- The Title I insurance may be terminated under the following circumstances:
 - the Lender files a claim on a Defaulted Loan; or
 - the Title I Loan is paid in full. (Enter "paid-in-full" as the exception reason on the Annual Exception Payment screen, under Title I Servicing in FHAC.)

q. Abbreviated Claim

- The abbreviated filing process allows insurance termination on Defaulted Loans when there
- is no expectation of claim payment. The Lender may submit an abbreviated claim to
- terminate premium billing when:
 - the Loan is in Default and no Reserves are left; and/or
- the Lender knows a Defaulted Loan is ineligible for claim payment.

i. Required Documentation

The Lender must submit:

1 2 3	• a form HUD-637, <i>Title I Claim for Loss</i> , Part II with items 1-9, 15 and 16 completed. The Lender, or an agent of the Lender with proper power of attorney, must sign the form HUD-637, with their full name and title included in box 16;
4	• a certification, stating that the claim is being filed to stop premium charges, no
5	claim payment is expected and no claim resubmission will occur. The Lender, or
6	an agent of the Lender with proper power of attorney, must sign the certification.
7	Please also indicate that there are no Reserves, or why no claim payment is
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	expected;
9	• copies of the Notices of Default and Acceleration. In the event that the Lender
10	could not issue the notice due to bankruptcy, include documentation of the
11	bankruptcy filing;
12	 documentation verifying that the Lender has updated credit bureau reporting to
13	show Default has occurred;
14	• a copy of the Note and Security Instrument (where applicable). No assignment to
15	HUD is required. If the Lender does not have a copy of the Note, the Lender may
16	send HUD a Missing Document Statement for the Note along with the copy of the
17	Security Instrument, if the Security Instrument details the terms of the Loan.
18	Lenders must mail the abbreviated claim package to the FOC. To expedite processing,
19	the Lender must use an attention line of "Abbreviated Claim Filing."
20	ii. HUD Review of Abbreviated Claims
21	HUD will review the documentation to ensure that the Loan is a Title I Loan previously
22	reported for insurance and that a Default has occurred. Once confirmed, HUD will accept
23	the abbreviated claim filing and deny the claim benefits since it is not payable.
24	This claim denial will stop subsequent insurance charges from being billed. Lenders can
25	confirm termination of billing by reviewing its next monthly Title I billing statement.
26	These Loans will appear in the "RENEWAL CANCELLATION" section of the bill.
20	These Bound will appear in the Table 2 (The Critice Babble Trior) section of the only
27	r. Denial of Insurance Claims
28	Effective for loan applications dated on or after June 1, 2009, when FHA endorses a Loan for
29	insurance, the Loan is covered under the Lender's Contract of Insurance. The insurance
30	coverage for the Loan is incontestable from the date of issuance of the certificate of
31	insurance except for fraud or misrepresentation on the part of the claimant in the origination.
32	Regardless of the loan application date, FHA may deny a claim in whole or in part, or within
33	two years after paying a claim, and recover the claim payment based upon a violation of
34	FHA's requirements for claim submission. For example, if the Note representing the
35	Borrower's obligation that is assigned to FHA is invalid or unenforceable, or if the Lender
36	making the claim does not follow the FHA claim requirements under the insurance contract,
37	FHA may deny payment of the claim.

1	i. Debt Not Valid or Enforceable
2 3 4 5 6	If the enforceability of the lien can be challenged, the Lender can obtain a Judgment against the Borrower and assign the Judgment to HUD. A lien may be challenged by improper wording of or method of mailing a legal notice, or other events that can challenge the validity of the deficiency debt. Acquiring a Judgment will prove the debt is valid.
7	ii. Missing or Incomplete Claim File Documentation
8 9 10	The claim package must include all applicable documents listed on form HUD-637, <i>Title I Claim for Loss</i> . If claim documentation is missing or incomplete, the FOC may request the documents from the Lender.
11	iii. Claim Filing Past the Deadline
12 13 14	If a claim is filed after the <u>claim filing deadline</u> , the Lender must request a waiver to document that the late filing was unavoidable. Note that a servicing error by the Lender is not considered a valid basis for a waiver.
15	iv. Unresolved Borrower Complaint
16 17 18 19 20	A Borrower complaint that casts doubt on the enforceability of the loan Note must be resolved prior to filing a claim. The Lender may resubmit the claim with additional documentation regarding the resolution of the complaint or if the Lender obtains a Judgment against the Borrower. Obtaining a Judgment against the Borrower will prove the debt is valid and enforceable.
21	v. Note and/or Assignment not an Original
22 23	The Lender may file a <u>Missing Document Statement</u> if it cannot locate the original Note and/or Assignment of Note.
24 25	vi. Error on the Appraisal Obtained in Connection with the Repossession of the Manufactured Home
26 27 28	The Lender must address and resolve appraisal errors directly with the Appraiser. A claim may still be paid if errors are not resolved; however, HUD will adjust the claim payment amount.
29 30 31	Errors on the appraisal include, but are not limited to, a property description (including model) that does not match the invoice/sales contract, math error in value calculation, and/or a value of model options was incorrectly used or omitted.

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1 vii. Missing or Incorrect Information on Form HUD-637, Title I Claim for Loss 2 The FOC will notify the Lender if a revised form HUD-637 is required due to missing or 3 incorrect information. The revised form must be signed by an authorized official of the 4 Lender prior to its resubmission to HUD. 5 viii. Missing or Incomplete Receipts for Repossession and Resale Expenses HUD will adjust/lower claim amounts if a receipt used to substantiate a claimed amount 6 is missing or unclear, unless the Lender can locate the receipt or clarify any information 7 in question. 8 9 s. Resubmitted Claims When a claim file is denied, the Lender has the option to resubmit with information to 10 11 resolve the denial. Standard 12 The Lender must resubmit the claim to HUD within six months of the date of HUD's 13 14 denial letter. ii. Required Documentation 15 A resubmitted insurance claim package must contain the following: 16 17 an updated form HUD-637; and documentation and explanation to address reasons for denial; or 18 explanation on why HUD's requests for additional documentation or explanation 19 20 do not apply to this particular Loan. 21 t. Appeals The Lender may appeal a denial of insurance benefits. The appeal must be sent to the FOC 22 23 for processing with the claim package. Should the FOC uphold the denial, it will forward the appeal to the Office of Single Family Program Development, Home Mortgage Insurance 24 25 Division for review. The Home Mortgage Insurance Division will communicate the final 26 decision to the FOC, who will respond to the Lender. An appeal request must include the 27 following: 28 the regulation in dispute; • the Lender's interpretation of the regulation; 29 why HUD's current interpretation is incorrect; 30 31 any other documentation supporting the Lender's interpretation of the regulation; actions the Lender took to meet the Lender's interpretation of the regulations; and 32

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evidence in the claim binder demonstrating these actions.

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u. Rescinding or Repurchasing a Claim

i. Voluntary Recall of a Claim

(A) Rescinding a Claim (Pre-Claim Payment)

The Lender may recall a claim at any point prior to claim payment. The rescission request must be sent in writing to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender.

(B) Repurchasing a Claim (Post Claim Payment)

The Lender may repurchase a claim for any reason if the claim payment amount is returned within 31 Days of the claim payment date. After 31 Days, HUD retains the right to determine whether it is in the best interest of HUD to return the claim. The repurchase request must be sent to the FOC and must clearly identify which claim is being recalled. The request must be in writing and signed by an authorized officer of the Lender. If repurchase is approved, the Lender must send a separate payment equal to the claim amount of the claim to the lockbox address for Title I payments.

ii. Involuntary Repurchase (HUD's Demand for Repurchase of a Claim)

FHA may demand that the Lender repurchase a Loan when the Note is invalid or unenforceable, or for violating FHA's claim submission requirements. FHA's demand for repurchase may occur up to two years after the date that the claim is paid.

In the case of fraud or misrepresentation on the part of the claimant in the origination or with respect to the claims process, FHA may demand repurchase at any time with no time limit. Consistent with existing practice, when a Loan is repurchased, FHA will return the claim file to the Lender.

Failure to return a claim payment after demand could result in interest, administrative costs and penalties being assessed against the Lender. Continued failure to pay may result in referral to HUD's MRB, to the Department of the Treasury, or to the Department of Justice for further action to enforce collection of the debt.

D. TITLE I DISPOSITION

1. Property Disposition for Property Improvement Loans

a. Lender Option to Proceed Against the Security

- 31 After <u>acceleration of the maturity</u> on a Defaulted Loan, the Lender may file a claim under its
- 32 Contract of Insurance. If the Loan is secured, the Lender may opt instead to collect the Loan
- by proceeding against the loan security rather than via claim submission to HUD. The Lender
- might opt to collect via the security (rather than via its Title I insurance) if the Lender

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1. Property Disposition for Property Improvement Loans

determines that it will likely recover more than the 90 percent insurance payment it will receive from HUD and/or if the Lender wishes to avoid a reduction in its Title I insurance coverage reserve account.

i. Prior Approval Required

- If the Lender wants to proceed against the loan security and later file a Title I insurance claim for any remaining loss, the Lender must obtain prior approval from HUD.
 - The Lender must submit a written request for prior approval to the Home Mortgage Insurance Division. The request should include:
 - the status of the Title I Loan, and an appraisal of the Property;
 - the amount and position of all unpaid liens against the Property;
 - estimated costs of foreclosure and disposition; and
 - the anticipated time to acquire and dispose of the Property.

ii. Deficiency Judgment Required

In proceeding against the security, the Lender must comply with all applicable state and local laws, and must take all actions necessary to preserve its rights to obtain a valid and enforceable deficiency Judgment against the Borrower.

b. Foreclosure by Other Lien Holder

- If another lien holder starts a foreclosure action against the Property that secures a Title I
- Loan, the Title I Lender must monitor the proceedings and participate as necessary to
- preserve its rights. HUD does not require that the Title I Lender bid at a foreclosure sale or
- 21 acquire title to the Property. The Lender may submit a claim if the Title I Loan is in Default
- and otherwise eligible before, or after, the foreclosure action is completed.
- If the Title I Lender elects to bid at a foreclosure sale to acquire title to the Property, then the
- Lender is "proceeding against the loan security" and the requirements outlined above will
- apply.
- If the foreclosure action is completed prior to the Title I Lender submitting a claim to HUD,
- the Lender must determine if excess funds exist after foreclosure, and document that
- determination in the case binder. If excess funds are available, the Lender must take
- appropriate action to obtain them. The case binder must contain copies of all notices sent to
- 30 the Title I Lender and document the Lender's actions.

c. Enforceable Note

- The Lender must service the Loan in a manner that will preserve the right to collect the Loan.
- If necessary, a Lender may obtain a Judgment against the Borrower to establish
- 34 enforceability.

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2. Property Disposition of Manufactured Homes

2 a. Proceeding Against the Loan Security

- 3 After acceleration of the maturity on a Defaulted Loan, the Lender must proceed against the
- 4 loan security by repossession or foreclosure of the collateral. Any action must be in
- 5 compliance with all applicable state and local laws, and the Lender must acquire proper
- 6 marketable title to the Manufactured Home securing the Loan. The Lender must also take all
- 7 actions necessary under federal, state and local law to preserve its rights to obtain an
- 8 enforceable deficiency against the Borrower.

9 **b. Abandonment**

- 10 If the 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.

c. Condition Report

- Prior to repossession, the Lender or its agent must 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 (e.g., refrigerator, air conditioner, etc.), and list any that are missing.
- 19 The report must be retained in the case binder.

d. Appraisal

- The Lender must obtain an appraisal of the secured Property in compliance with Appraiser
- and Property Requirements for Title I Loans. The Lender must obtain the appraisal as soon as
- possible after repossession, or earlier with the permission of the Borrower. The appraisal
- must be performed on the home site unless the site owner requires that the home be removed
- before the appraisal can be performed. The appraisal must reflect the current 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.

e. Appraiser Qualifications

- 30 Appraisers of Title I Manufactured Home Properties must be in compliance with
- 31 requirements for Title I Appraisers.

f. Damage to Manufactured Home while in Possession of the Lender

- 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

- 1 coverage. If the Manufactured Home is without hazard insurance, the appraisal should reflect value as if there were no damage.
- 3 **g. Salvage**

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- 4 If the repossessed Manufactured Home is in such poor condition that it cannot be made
- 5 usable again, the Appraiser must demonstrate that fact. The appraisal should reflect the
- 6 Manufactured Home's salvage value and the method used to determine the value.
 - h. Repossession and Preservation Expenses
- 8 All repossession and preservation expenses paid to a third party must be documented in the
- 9 case binder. 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.

i. 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. The Lender must dispose of the Property in compliance with state and local laws so as to ensure 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.
 - j. Cash for Keys
- 27 i. Definition
- Cash for Keys is a monetary consideration offered as an alternative to legal eviction to property occupants after foreclosure.
- 30 **ii. Standard**
- The amount paid under this policy must be customary and reasonable for the jurisdiction,
- 32 up to \$1,000 per dwelling, on the condition that the occupant peacefully vacates a
- Property for a Title I Loan in Default.

1 2	Cash for Keys must not be utilized in conjunction with Properties acquired by voluntary conveyance or surrender.
3 4	In jurisdictions with rent control ordinances, Lenders must adhere to all applicable laws and regulations.
5 6 7	The Cash for Keys offer must be made available only to occupants who fail to vacate a Property after the first notice to quit is delivered and further legal action to evict is imminent.
8 9 10 11	In order to receive the funds, all occupants must vacate the Property within 30 Days of the Cash for Keys offer. Occupants are required to leave the Property in Broom-swept Condition. All components (e.g., appliances, fixtures, inside or outside heating unit, inside or outside air conditioning unit, carport) must be left with the Property.
12 13 14	Servicers must inspect the vacant Properties within 15 Days after the occupants vacate the Property and prior to releasing the funds to ensure that the occupants have complied with their agreement on the condition of the Property.
15 16 17	The amount paid under the Cash for Keys policy may be included in a claim amount, and is subject to standard coverage of 90 percent, limited by the amount in the Lender's reserve account.
18	iii. Required Documentation
19 20 21 22 23 24 25	 Servicers must maintain documentation in the file showing all of the following: a comparison analysis of the amount offered to the home occupants with jurisdictional cost for legal eviction and/or possession of the Property; the date and amount of the offer; the occupant's receipt of the funds and agreed upon date of vacancy; communication records related to the Cash for Keys offer; and a condition inspection.
26	k. Sale of the Repossessed Home
27 28 29	The Manufactured Home must 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).
30	i. Best Price Obtainable
31 32 33	When the Lender obtains title to the Property securing a Manufactured Home Loan through repossession or foreclosure, the Property must be sold for the best price obtainable before submitting an insurance claim.
	obtainable before such missing an insurance claim.

(A) Definition

The Best Price Obtainable refers to the greater of:

- the actual sales price of the Property, after deducting the cost of repairs to
 make the home habitable, cleaning and reconditioning, upgrades to the home
 requested by a buyer, to make the home furnishings, and equipment needed to
 make the Property marketable, and after deducting the cost of transportation,
 set-up, and anchoring if the Manufactured Home is moved to a new home site;
 or
- the appraised value of the Property before repairs (as determined by a HUDapproved appraisal obtained in accordance with <u>Appraiser and Property</u> <u>Requirements for Title I Loans</u>.

(B) Standard

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.

ii. Cost 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 case binder. 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.

iii. 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.

iv. Sales Commission

The amount of a sales commission paid to a third party must be documented in the case binder. 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 <u>sales commission</u> that can be included in its calculation of the Lender's claim payment.

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2. Property Disposition of Manufactured Homes

1	v. Enforceable Note
2 3 4	The 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.
5	vi. Lender Responsibility While Insurance Claim is Pending
6 7 8	If an insurance claim is pending payment, a Lender must not pursue active collections against the Borrower, but should take all steps necessary to protect the interests of HUD and the Lender.
9	vii. Legal Notices
10 11	The Lender is responsible for answering legal notices (e.g., bankruptcy) and forwarding the information to the FOC.
12	viii. Borrower Payment before Claim Payment
13 14 15	If a Borrower sends a payment while an insurance claim is pending, the Lender may either amend its form HUD-637, <i>Title I Claim for Loss</i> , or request that claim payment be expedited so that the payment can be forwarded to HUD.
16	ix. Prohibition against Coinsurance Recovery
17 18 19	The Lender must not attempt to collect money from the Borrower, including the coinsurance loss, after a claim is paid. Since the loan Note is assigned to the United States, the Lender has no basis from which to make demand upon a Borrower.
20	x. Borrower Payment after Claim Payment
21 22	All payments received by a Lender after claim payment must be promptly transmitted to the FOC.

- V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE
- A. Quality Control of Lenders and Mortgagees
- 1. Quality Control Program Overview

1 V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

- 2 The Quality Control, Oversight and Compliance section in this FHA Single Family Housing
- 3 Policy Handbook (SF Handbook) covers Quality Control (QC) requirements, Federal Housing
- 4 Administration (FHA) monitoring of Mortgagees, and enforcement actions FHA may take if its
- 5 requirements are violated. This section covers Title I Lenders, Title II Mortgagees, and other
- 6 FHA program participants. For the purposes of this section, Quality Control, Oversight and
- 7 Compliance, the term "Mortgagee" is used throughout for all types of FHA approval (both Title
- 8 II Mortgagees and Title I Lenders) and the term "Mortgage" is used for all products (both Title II
- 9 Mortgages and Title I Loans), unless otherwise specified.
- A Mortgagee must fully comply with all of the following requirements in order to participate in
- the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of
- 12 FHA-insured Title I or Title II Mortgages.
- 13 If there are any exceptions or program-specific requirements that differ from those set forth
- below, the exceptions or alternative program requirements are explicitly stated or hyperlinked to
- 15 the appropriate guidance. Terms and acronyms used in this SF Handbook have their meanings
- defined in the Glossary and Acronyms or in the specific section of the SF Handbook in which the
- 17 definitions are located.

18 A. QUALITY CONTROL OF LENDERS AND MORTGAGEES

- 19 **1. Quality Control Program Overview**
- 20 2. Institutional Quality Control Program Requirements
- 21 3. Loan Level Quality Control Program Requirements
- a. Loan File Selection
- b. Loan Sample Risk Assessment
- c. Origination and Underwriting Case Binder Compliance Review
- 25 i. Minimum Requirements
- At a minimum, Mortgagees must include the following areas in their QC review to ensure
- 27 they meet the requirements outlined in the <u>Title II Insured Housing Programs Forward</u>
- 28 Mortgages section or the Title I Insured Programs Property Improvement Loan Program
- or <u>Manufactured Home Loan Program</u> section(s) of this *SF Handbook*:

Requirement	TII Pre- Closing Review	TII Post- Closing Review	Title I Review
Appraisal	✓	✓	✓

- A. Quality Control of Lenders and Mortgagees
- 3. Loan Level Quality Control Program Requirements

Requirement	TII Pre- Closing Review	TII Post- Closing Review	Title I Review
Mortgage application, eligibility, and	✓	✓	✓
underwriting documents		/	
Disclosures and legal compliance	√	√	V
Mortgage origination documents	v	•	✓
Handling of mortgage documents	~	*	✓
Borrower occupancy		✓	√ *
Credit reports	√	✓	✓
Outstanding debt obligations	/	√	✓
Verifications of employment and deposit	\checkmark	✓	✓
Self-employed Borrowers	√	✓	√
Borrower's source of funds	✓	✓	✓
Underwriting accuracy and completeness, including compensating factors	1	✓	✓
Property improvement loan completion certificates and inspections of completed improvements			√
Manufactured Home <i>Placement Certificate</i> and site-of-placement inspection			√ **
Property improvement loan proceeds use eligibility			✓
Post-Disbursement inspections on property improvements or manufactured home installation			✓
Property Flipping restrictions	✓	✓	
Prohibited restrictive covenants	✓	✓	
Qualified Mortgage (QM)	✓	✓	
Loan estimate	✓	✓	√
Discrepancies in the case binder	✓	✓	✓
Condition clearance	✓	✓	✓
Closing procedures and documents		✓	✓
Closing Disclosure		✓	✓
Pre-endorsement review		✓	
Timely submission for insurance		✓	✓

^{*} Applies when the Property is a Manufactured Home (including Manufactured Homes with a Property Improvement Loan)

^{**} Applies only to Manufactured Home Loans

- A. Quality Control of Lenders and Mortgagees
- 3. Loan Level Quality Control Program Requirements

ii. Document Review and Re-verification

(A) Credit Report

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(B) Income, Employment, Asset, and Housing Expense Information

(C) Appraisals

(D) Title I Loan Disbursement

(1) Standard

For all QC post-closing and Early Payment Default (EPD) reviews of <u>Title I Insured Programs- Manufactured Home Loan Program</u> and <u>Property Improvement Loan Program</u>, the Lender must determine that the Disbursement of loan proceeds was adequately documented in the case binder and the Disbursement was completed in accordance with FHA requirements. The Lender must also determine that Disbursements to a Borrower or Dealer were made in accordance with FHA requirements.

(2) Required Documentation

The Lender must document any discrepancies and retain copies of information used to resolve such discrepancies.

d. Quality Control Reviews of Specialized Mortgage Programs

e. Servicing Loan File Compliance Review

i. Minimum Requirements

Mortgagees must review all aspects of their servicing operations, including a review of subserviced Mortgages and activities as they relate to FHA-insured Mortgages, to guarantee that all FHA servicing and loss mitigation requirements are being met. At a minimum, Mortgagees must include the following elements in their QC review to ensure they meet the requirements outlined in the <u>Servicing and Loss Mitigation</u> and <u>Claims and Dispositions</u> or the <u>Title I Insured Programs- Manufactured Home Loan Program</u> or <u>Property Improvement Loan Program</u> section(s) of this *SF Handbook*:

Requirement	Title II Review	Title I Review
Servicing Records	✓	✓
Document Retention and Legibility	✓	✓
Non-discrimination Policies	✓	✓
Borrower Requests, Compliance and Escalated Cases	✓	✓
Fees	✓	✓

- A. Quality Control of Lenders and Mortgagees
- 3. Loan Level Quality Control Program Requirements

Requirement	Title II Review	Title I Review
Transfer of Servicing Notification and Records	✓	✓
Documentation of Purchased or Acquired Mortgages	✓	✓
Mortgage Record Changes	✓	✓
Escrow Account Functions	✓	✓
Force-placed Insurance	✓	✓
Prepayments	V	✓
MIP	✓	✓
Early Default Intervention	✓	✓
Loss Mitigation	✓	✓
Collection Activities	✓	✓
Reporting to Credit Repositories	✓	✓
Home Retention Option Priority Order (Waterfall)	✓	
Home Disposition Options	✓	
Claims for Insurance Benefits	✓	✓
Claims Without Conveyance of Title (CWCOT)	✓	
Foreclosure Proceedings	✓	✓
Property Preservation and Conveyance	✓	✓
Deficiency Judgments	✓	✓
Single Family Default Monitoring System (SFDMS) Reporting	✓	
Adjustable Rate Mortgages (ARM)	✓	
Assumptions	✓	✓
Presidentially-Declared Major Disaster Areas (PDMDA)	✓	
Hawaiian Home Land Mortgages (Section 247 Mortgages)	✓	
Section 184 Indian Housing Loans	✓	
Section 222 Mortgages	✓	
Good Neighbor Next Door	✓	
Servicemembers Civil Relief Act (SCRA)	✓	
Section 235 Mortgages	✓	
Section 203(k) Mortgages	✓	
Servicing of HECM	✓	

- V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE
- **B.** Quality Control of Other Participants
- 1. Cooperation with HUD Investigations and Reviews

1 B. QUALITY CONTROL OF OTHER PARTICIPANTS

- 2 C. MORTGAGEE MONITORING
- 3 1. Cooperation with HUD Investigations and Reviews
- 4 2. Institutional Mortgagee Monitoring
- 5 a. Title I Lender Monitoring Reviews
- 6 i. Notice
- 7 Lenders are given notice prior to FHA monitoring reviews.
- 8 ii. Production of Case Binders and Records
- 9 Lenders must have the files requested by FHA available for review. The Lender must
- provide all records related to the Loans selected for review, including any and all files,
- 11 whether hard copy or stored, in the Lender's systems that include data or information on
- the specific Loans identified.
- iii. Scope
- 14 FHA will, in its sole discretion, determine the scope of any monitoring review. FHA may
- 15 conduct limited reviews of a Lender's origination, underwriting, and servicing of FHA-
- insured Loans, or more comprehensive reviews that include not just the Lender's files,
- 17 records, and practices, but also the Lender's overall operations and policies with respect
- to Lender relationships, QC and risk management, escrow administration, wholesale
- 19 Loans, and certain FHA product lines.
- 20 iv. Findings
- 21 At the conclusion of a monitoring review, FHA will discuss Findings with the Lender.
- 22 FHA will provide the Lender with notification of identified Findings, if any, and specify
- 23 the remedies and responses that are required.
- 24 3. Loan Level Monitoring
- a. Title I Loan Reviews
- i. Notice
- FHA will notify Lenders of its intent to review the Title I Loan.
- 28 ii. Production of Case Binders
- The Lender must provide the requested case binder within 10 business days of FHA's
- 30 transmittal of a request.

	1.	Referrals for Non-Compliance
1		iii. Scope
2 3 4		Title I Loan reviews consist of, but are not limited to, the Lender's compliance with FHA guidelines and an assessment of whether the Loan represents an unacceptable level of risk to FHA.
5		iv. Findings
6 7		At the conclusion of the review, FHA will provide the Lender with notification of the identified Findings, if any, and specify the remedies and responses that are required.
8	D.	MONITORING OF OTHER PARTICIPANTS
9	Ε.	ENFORCEMENT
10	1.	Referrals for Non-Compliance
11	2.	Employee Improprieties Attributed to the Mortgagee
12	3.	Program Office Actions and Sanctions
13		a. Actions and Sanctions Against Mortgagees
14		i. Probation of Title II Direct Endorsement Authority
15		ii. Withdrawal of Title II Direct Endorsement Authority
16		iii. Credit Watch Termination of Title II Mortgagees
17		iv. Suspension or Termination of Title II Lender Insurance Authority
18		v. Termination of Title I Lender Contract of Insurance
19 20 21		HUD may terminate a Lender's authority to originate or underwrite FHA-insured Title I Loans for any Lender that demonstrates a pattern or practice of failing to comply with Title I originating, underwriting or program guidelines.
22		(A) Notice and Appeal
23 24 25		FHA will provide the Lender with written notice of the proposed termination of the Lender's Contract of Insurance within five business days that identifies the grounds for the action and advises the Lender of its right to an informal conference.
26		(1) Informal Conference
27 28		FHA will expeditiously arrange for a conference where the Lender may present information and arguments in opposition to the proposed termination prior to the

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

D. Monitoring of Other Participants

V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE E. Enforcement 3. Program Office Actions and Sanctions expiration of the five-Day notice period. The Lender may be represented by counsel. (2) Determination After consideration of the material presented, FHA will issue a decision in writing stating whether the proposed termination is rescinded, modified, or affirmed. (B) Effect of Termination (1) Newly Originated Loans A Lender cannot obtain insurance coverage for new Loans originated under the terminated Contract of Insurance as of the effective date of termination. (2) Previously Insured Loans The insurance reserve on Loans previously accepted for insurance is not adversely affected except for Loans involving fraud or misrepresentation. (3) Premiums and Obligations The Lender is not relieved of the liability to pay future insurance premiums or other obligations owed to HUD. (4) Reserves Insurance Reserves earned by the Lender as of the date of termination, under the terminated contract, remain to its credit unless exhausted by filing of claims. (C) Reinstatement of Contract of Insurance

(1) Waiting Period

A Lender may apply to obtain a new Contract of Insurance no earlier than six months after the effective date of the termination.

(2) Corrective Action Plan

The Lender must submit a corrective action plan to address each of the issues identified that resulted in termination, along with evidence that the plan has been implemented. FHA reserves the right to impose additional requirements for reinstatement.

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- V. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE
- E. Enforcement

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3. Program Office Actions and Sanctions

(3) Application for Reinstatement

The application for reinstatement must be submitted through the Lender Electronic Assessment Portal (<u>LEAP</u>). The application must be accompanied by the corrective action plan.

