HECM FINANCIAL ASSESSMENT AND PROPERTY CHARGE GUIDE

EFFECTIVE FOR HECM CASE NUMBERS ISSUED ON OR AFTER JANUARY 13, 2014

Introduction

The HECM Financial Assessment and Property Charge Guide (Guide) provides underwriting guidance and documentation requirements for completing the financial assessment of HECM mortgagors (mortgagors) that is a requirement for mortgage approval. Specifically, this Guide provides policy requirements on:

- performing the credit history analysis and cash flow/residual income analysis;
- evaluating extenuating circumstances and compensating factors;
- evaluating the results of the financial assessment to determine eligibility for the HECM;
- determining if funding sources for property charges from HECM proceeds will be required;
- completing a financial assessment worksheet; and
- verification requirements and documentation standards for credit, income, and expenses.

Contents

This Guide addresses the following topics:

1. Financial Assessment Overview

Introduction

This chapter provides an overview of the underwriting guidance and documentation requirements for the HECM financial assessment as stated in Mortgagee Letter 2013-27.

1.1 Purpose of the Financial Assessment

The purpose of the financial assessment is to evaluate the mortgagor's willingness and ability to meet his/her financial obligations and to comply with the mortgage requirements. The financial assessment is also used to determine whether, and under what conditions, the mortgagor meets FHA eligibility criteria and whether an allocation of HECM proceeds will be required for payment of property charges.

In conducting this assessment mortgagees must also take into consideration that in many instances the mortgagor is seeking the HECM because of financial difficulties. These difficulties may be reflected on the mortgagor's credit report and/or property charge payment history. The extent to which the HECM may provide the solution to these financial difficulties must be taken into account during the financial assessment.

1.2 Verification Requirements and Documentation Standards

Mortgagees must rely on the policy guidance in this Guide and in Mortgage Letter 2013-27 to complete the financial assessment required as a condition of mortgage approval. In general, mortgagees must rely upon the guidance provided in specific sections of HUD Handbook 4155.1, *Mortgage Credit Analysis for Mortgage Insurance on One to-Four Unit Mortgage Loans* at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1 for documenting and verifying credit history, income, assets and obligations, and for information on documentation standards.

All provisions of existing HECM policy as stated in HUD Handbook 4235.1 REV-1 and subsequent mortgagee letters also remain in effect unless noted otherwise in Mortgagee Letter 2013-27 or in this Guide.

1.3 HUD Handbook 4155.1 Reference Matrix

A matrix mapping financial assessment requirements found in this Guide to the specific verification and documentation standards to HUD Handbook 4155.1 is provided in Appendix 3.

The matrix also identifies the existing HECM policy guidance that remains in effect for certain aspects of the financial assessment.

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1.4 Information on Income, Expenses, Assets and Liabilities

The information that mortgagees use to conduct the financial assessment must be included in the origination case binder. The information must be filed on the right-hand side of the case binder immediately behind the credit report.

Information on income, expenses, assets and liabilities is not captured on Fannie Mae Form 1009, *Residential Loan Application for Reverse Mortgages*. Mortgagees must capture this information using Part VI of Fannie Mae Form 1003, *Universal Residential Loan Application*, as a model, or through a form they have developed that contains all required information.

1.5 DE Underwriter Responsibility

The HECM financial assessment must be completed by a Direct Endorsement (DE) underwriter registered in FHA Connection by the underwriting mortgagee. A copy of a worksheet that captures the key information used by the mortgagee to conduct the financial assessment and signed by the DE Underwriter must be placed on the right-hand side of the HECM endorsement case binder directly after the request for late endorsement (if applicable).

A model worksheet is provided in Appendix 1 of this Guide.

1.6 Non-discrimination in Performing Financial Assessments

The financial assessment must be conducted in a uniform manner that shall not discriminate because of race, color, religion, sex, age, national origin, familial status, disability, marital status, actual or perceived sexual orientation, gender identity, source of income of the mortgagor, or location of the property.

1.7 FHA's TOTAL Scorecard

The use of FHA's Technology Open To Approved Lenders (TOTAL) Scorecard for HECMs is not permitted. The FHA TOTAL Scorecard is designed to evaluate the creditworthiness of forward mortgages only.

Any references to TOTAL in HUD Handbook 4155.1 do not apply to HECMs or the HECM Financial Assessment.

1.8 Qualifying Ratios

Qualifying ratios are not calculated for HECMs. Any references to qualifying ratios in HUD Handbook 4155.1 do not apply to HECMs.

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1.9
HECM for Purchase

Pursuant to instructions provided in Mortgagee Letter 2009-11 mortgagees have been responsible for evaluating the finances of mortgagors seeking a HECM purchase mortgage with respect to the following:

- When the mortgagor intends to retain their existing home as a rental property, mortgagees must ensure they have sufficient income to
    - maintain the costs associated with the new home financed with the HECM for Purchase (i.e., taxes, insurance, maintenance)
    - satisfy the monetary investment for the HECM for purchase transaction; *and*
    - continue to make the mortgage payment and tax and insurance payments on the existing mortgage.
- Mortgagees are required to verify the amounts and sources of funds necessary to meet the monetary investment.

These requirements remain in effect. In addition, mortgagors applying for a HECM for purchase mortgage must meet all of the requirements described in this Guide.

1.10
Results of Property Analysis

Existing policy with regard to the property analysis for HECMs, including a determination of the need for any set asides to complete required repairs, remains in effect.

References: HUD Handbook 4235.1 REV-1, Chapter 3 and Mortgagee Letter 2005-48.

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2. Credit History Analysis

Introduction

This chapter provides the policy and documentation standards for evaluating the mortgagor's credit history

2.1 Purpose of the Credit History Analysis

The purpose of the credit history analysis is to determine if the mortgagor has demonstrated responsible management of debt, finances and homeownership obligations. The mortgagee must analyze the mortgagor's credit history and loan application to identify debts/obligations that must be included in the residual income analysis and to determine if the mortgagor has:

- delinquent Federal debt;
- any unpaid liens against the subject property resulting from a State or court-ordered judgments;
- a satisfactory payment history on revolving credit, installment accounts, and mortgages; and
- a satisfactory history of timely payment of property charges (see Section 2.5 for a definition of property charges).

2.2 Credit Report Requirements

Mortgagees must obtain a three repository (tri-merged) credit report (credit report) for all prospective mortgagors and for a non-borrowing spouse when the couple resides in a community property state.

2.3 CAIVRS

The following guidance replaces guidance found in HUD Handbook 4235.1, Section 4-3C.

Mortgagees are required to screen mortgagors through CAIVRS. If CAIVRS screening indicates that the mortgagor has had a claim paid within the previous three years on a loan insured on the mortgagor's behalf by FHA, the lender may submit a request for waiver or resolution of the unresolved CAIVRS indicator.

Prior to submitting the request for waiver or resolution, the DE underwriter must fully underwrite the application to determine all other eligibility requirements have been met.

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The mortgagee may then submit the request, including the following information, to HUD at the address below.

- A cover sheet indicating CAIVRS clearance request for "HECM Financial Assessment," FHA Case number, Name(s) of mortgagor(s) with CAIVRS indicators;
- Point of Contact for the mortgagee; and

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2.3 CAIVRS (continued)

- A copy of page 3 of form HUD-92900-A signed by the DE Underwriter noting that approval is conditioned upon CAIVRS clearance. The DE Underwriter should indicate in the Additional Conditions under "Other:" "Subject to CAIVRS indicator resolution by FHA."

Send to:

US Department of Housing and Urban Development
Attn: Division Director, Home Mortgage Insurance Division
451 7th St. SW, Room 9266
Washington, DC 20410

HUD will review the request and provide the mortgagee with affirmation of the decision for waiver or resolution.

2.4 Federal Debt and Judgments

A Federal judgment or delinquent Federal debt must be paid-in-full or a satisfactory repayment plan between the prospective mortgagor and the Federal agency owed must be in place prior to closing of the HECM. Any delinquent Federal debts or liens against the real estate must not be in excess of the mortgagor's net principal limit, unless the mortgagor has a separate source of funds from which to draw and pay those debts. Liens against the real estate resulting from delinquent Federal debt must be satisfied or resolved.

Reference: HUD Handbook 4235.1 REV-1 Section 4-3 A and Mortgagee Letter 2009-49.

2.5 State and Court-Ordered Judgments

FHA does not require the HECM mortgagor to satisfy an unpaid State or local court-ordered judgment prior to or at closing, although the mortgagee may impose such a requirement. Liens against the real estate resulting from outstanding state or local court judgments must be satisfied and removed or subordinated to the HECM first and second liens at closing.

References: Mortgagee Letters 2006-20 and 2009-49

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2.6 Definition of Property Charges

Property charges include:

- Sum of all property taxes – school, city, state, county, etc.;
- hazard insurance and flood insurance;
- homeowners association (HOA), condominium and planned unit development (PUD) fees;
- ground rents; and
- other assessments levied by municipalities or under State law.

2.7 Credit History

The mortgagee must determine if the mortgagor has a satisfactory credit history which includes a demonstrated history of:

- no property tax arrearages in the last 24 months prior to the date of the initial loan application. All property charges are current at application. For example, the mortgagor pays property taxes by the due date or within the grace period with no penalties being assessed.
- Homeowner's insurance in place for a minimum of 90 days prior to the date of initial loan application.
- A satisfactory payment history on revolving credit, installment accounts and mortgages.

A history of maintaining property taxes, hazard and flood insurance combined with satisfactory credit and acceptable residual income is an indicator of personal ability to meet these requirements.

Mortgagees must consider as part of their assessment whether the mortgagor has direct experience paying taxes and insurance, or has relied upon the lender administering an escrow account to make these payments. Lack of experience in managing payment of taxes and insurance combined with other risk factors may support the requirement for a set aside whereas borrowers who have proven history of personal responsibility for maintaining property taxes and insurance may be considered when evaluating need for requiring a set aside.

2.8 Lack of Credit History - Traditional and Refinance HECMs

Where a HECM mortgagor **seeking a traditional or refinance HECM,** or, in community property states, the non-borrowing spouse, does not have traditional credit and a credit report is not available, the DE Underwriter is not required to develop a non-traditional credit history.

Mortgagors **seeking a traditional or refinance HECM** with no traditional credit history may be deemed to have an acceptable credit history, unless the mortgagee is aware of specific issues that call into question the mortgagor's willingness to meet the provisions of the mortgage.

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2.9 Lack of Credit History - HECM for Purchase

Where a HECM mortgagor **seeking a HECM for purchase** does not have traditional credit and a credit report is not available, the DE Underwriter is required to develop a non-traditional credit history in accordance with the requirements of HUD Handbook 4155.1, Chapter 4, Sections 1 and 3.

2.10 Documentation Standards for Property Charge Payments

Mortgagees must verify and document the payment of property charges in accordance with the following requirements:

- Property taxes. Mortgagees must document that property taxes from all taxing authorities meet payment history criteria defined above through written statements or on-line print-outs from the taxing authorities, or through copies of bills and canceled checks.
- Hazard insurance. Mortgagees must obtain the current and previous year's declaration sheet of the insurance policy.
- Flood insurance. Mortgagees must obtain the current and previous year's declaration sheet of the insurance policy.
- Determine if there are any liens on the property as a result of delinquent HOA, PUD and Condominium fees.
- Other assessments. Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting payments, or copies of bills and canceled checks.
- Ground rents. Mortgagees must obtain from the lessor or its management agent a written statement documenting payments, or copies of bills and canceled checks.

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2.11 Derogatory Credit

The presence of significant derogatory credit information dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. The mortgagee must:

- determine the cause and significance of derogatory information;
- verify whether sufficient time has elapsed since the date of the last derogatory information;
- confirm that the mortgagor has resolved issues and re-established an acceptable credit history, or that the mortgagor has chosen not to incur new credit obligations;
- Analyze the payment history on existing conventional or FHA-insured mortgages or for prior residences and address any derogatory credit (explanations, resolution);
- consider circumstances beyond the mortgagor's control when reviewing derogatory credit (see HUD Handbook 4235.1, paragraph 4-3C and 4-8B for more information on foreclosures and bankruptcies. See Section 4 of this Guide for more information on Extenuating Circumstances).

2.12 Bankruptcy-HECM for Purchase

A Chapter 7 bankruptcy (liquidation) does not disqualify a mortgagor seeking to **purchase a home with a HECM** provided at least two years have elapsed since the date of the discharge of the bankruptcy. During this time, the mortgagor must have:

- re-established good credit, or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable if the mortgagor:

- can show that the bankruptcy was caused by extenuating circumstances beyond his/her control; and
- has since exhibited a documented ability to manage his/her financial affairs in a responsible manner.

A Chapter 13 bankruptcy does not disqualify a mortgagor seeking to **purchase a home with a HECM** provided that the lender documents that:

- one year of the pay-out period under the bankruptcy has elapsed;
- 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 mortgage transaction.

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2.12 Bankruptcy-HECM for Purchase (continued)

Note: The lender must document that the mortgagor's current situation indicates that the events which led to the bankruptcy are not likely to recur.

Reference: HUD Handbook 4155.1, Chapter 4, Sections C.2.g and C.2.h.

2.13 Recent and Undisclosed Debts

In addition to the above requirements, the mortgagee must also determine the purpose of any recent debts, to ensure that borrowed funds were not used to meet the cash investment requirement for a property being purchased with a HECM. The mortgagee must include documentation in this regard in the origination case binder.

A mortgagor must provide a satisfactory explanation for any significant debt shown on the credit report but not listed on the loan application, and a written explanation for inquiries shown on the credit report within the last 90 days.

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3. Cash Flow/Residual Income Analysis

Introduction

This chapter contains policy guidance and documentation standards for assessing the mortgagor's cash flow and residual income.

3.1 Purpose of the Cash Flow/ Residual Income Analysis

The purpose of the cash flow/residual income analysis is to determine the **capacity** of the mortgagors to meet their documented financial obligations with their documented income.

Combined with the credit history review, the cash flow/residual income analysis is required to determine whether and under what conditions the HECM applicant meets FHA eligibility criteria.

3.2 Effect of Paying Off Defaulted Liens on Cash Flow/Residual Income

While conducting the cash flow/residual income analysis mortgagees must:

- Determine if the property has liens in default and determine if the HECM is being used to pay off the defaulted property liens;
- Evaluate the circumstances leading to the default and determine whether the HECM pay-off represents a sustainable solution; and
- Assess how the pay-off of the existing mortgage with the HECM proceeds increases monthly cash flow.

3.3 Income

Income from all sources as described below should be calculated for all **mortgagors**. Income from non-borrowing spouses or other household members not obligated on the mortgage may not be considered as part of the cash flow residual income analysis, either directly or as a compensating factor.

3.4 Traditional Sources of Income

The DE underwriter must verify and document any income used in the cash flow/residual income analysis including, but not limited to:

- Employment Income;
- Rental Income;
- Pension/Retirement Benefits (based on period of continuance);
- VA Benefits; and
- Social Security, disability, workman's compensation, public assistance.

Note: Since the cash flow/residual income analysis will take into account Federal taxes, non-taxable income may **not** be "grossed up."

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3.5
Imputed Income from Asset Dissipation

Imputed income from dissipated liquid assets, using a discounted amount as applicable, may be included in the mortgagor's income in calculating residual income. Liquid asset sources from which imputed income may be calculated include, but are not limited to the following:

Asset Source	Amount To Be Counted
Lump sum distributions from retirement or severance packages.	100%
Retirement assets (401k, IRA, etc.)	70%
Annuities based on remaining term	70%
Non-retirement assets (stocks, mutual funds)	60%
Savings and Checking Accounts	100%

Mortgagees must calculate the combined value of assets and calculate income from these sources. Divide the total adjusted value by the remaining life expectancy (in months) of the mortgagor(s) as used in the Total Annual Loan Calculation (TALC).

Note: Where income from the dissipation of an asset is being used to calculate residual income, mortgagees may not include interest income from that same asset in the analysis.

3.6
Asset Dissipation Calculation Table

Mortgagees must use the table below *as a guide* to calculating imputed income from liquid assets. The resulting monthly amount should be entered on the financial assessment worksheet to calculate residual income.

Asset Type	Account Value		Discount Rate		Discounted Value
Lump Sum Distribution	$	x	100%	=	$
Retirement Assets	$	x	70%	=	$
Annuities	$	x	70%	=	$
Non-Retirement Assets	$	x	60%	=	$
Checking/Savings	$	x	100%	=	$
Total Discounted Value					**$**
minus Borrower Funds Needed to Close					-
Adjusted Discounted Value					**$**
Life Expectancy of Youngest Borrower In Months Age _____ x 12 =					mos.
Adjusted Discounted Value ÷ Life Expectancy = **Total Monthly Income from Assets**					**$**

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3.6
Asset Dissipation Calculation Table
(continued)

Where monthly income from asset dissipation is included in the residual income analysis mortgagees must attach documentation to the financial assessment worksheet identifying the specific assets used and the calculation of the monthly amount.

3.7
Expense Analysis

Using the credit report, Fannie Mae Form 1009, and other documents that may be available to the mortgagee (e.g., bank statements), the mortgagee must identify all secured and unsecured debts. The mortgagee must calculate:

- Federal and State Income Taxes;
- Property charges for the subject property;
- Estimated utility and maintenance expenses;
- Installment account payments;
- Any other owned property mortgage obligations (debt and property charges)
- Revolving credit account payments;
- Alimony and child support payments;
- Obligations of the non-borrowing spouse (community property states only). Refer to Mortgagee Letter 2013-24.

3.8
Federal and State Income Taxes

Mortgagees may use current pay stubs, tax tables, or federal, state and local tax returns from the most recent tax year, to document federal, state and local taxes.

3.9
Maintenance and Utility Charges

Mortgagees may rely on the formula established by Department of Veterans Affairs (VA) for estimated maintenance and utilities in all states. Mortgagees should multiply the living area of the property (square feet) by $0.14.

Example:

1,500 square feet
x .14
$210.00 per month

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3.10 Documentation Standards for Property Charges

Mortgagees must verify and document the amount of property charges in accordance with the following requirements:

- Property taxes. Mortgagees must document the amount of property taxes due from all taxing authorities through written statements or on-line print-outs from the taxing authorities, or through copies of bills.
- Hazard insurance. Mortgagees must obtain the current and previous year's declaration sheet of the insurance policy.
- Flood insurance. Mortgagees must obtain the current and previous year's declaration sheet of the insurance policy.
- HOA, PUD and Condominium fees. Mortgagees must obtain from the appraisal, or from a written statement from the association or its management agent, documentation on the amount of the monthly fee.
- Other assessments. Mortgagees must obtain from the party levying the assessment or its management agent a written statement documenting the amount of any other assessments.
- Ground rents. Mortgagees must obtain from the deed, the lessor or its management agent a written statement documenting the amount of the ground rent payment.

3.11 Residual Income

FHA is modeling its residual income analysis on the underwriting guidance provided by the VA for the calculation of residual income, with modifications to accommodate the unique aspects of a HECM.

Residual income is calculated by calculating the total monthly income from all sources for the mortgagors obligated on the mortgage, and subtracting from that amount the total monthly expenses.

The mortgagee's analysis must be entered on a financial assessment worksheet that identifies the specific amounts and sources of income and expenses determined through the cash flow/residual income analysis. A model financial assessment worksheet is provided in Appendix 1. Mortgagees may use this model form or develop their form provided it includes all the pertinent information.

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3.12 Calculating Residual Income

To determine if residual income is sufficient to demonstrate the financial capacity of the mortgagors to meet their financial obligations, select the applicable family size, and region from the table below.

Table of Residual Incomes by Region				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$ 540	$ 529	$ 529	$ 589
2	$ 906	$ 886	$ 886	$ 998
3	$ 946	$ 927	$ 927	$1,031
4 or more	$1,066	$1,041	$1,041	$1,160

Count **all** members of the household (without regard to the nature of the relationship) when determining "family size," including:

- a spouse who is **not** joining in title or on the note, and
- any other individuals who depend on the mortgagor for support. For example, children from a spouse's prior marriage who are not the mortgagor's legal dependents.

Exception: The lender may omit any individuals from "family size" who are fully supported from a source of verified income which is **not** included in the calculation of residual income. For example:

- a spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses, or
- a child for whom sufficient foster care payments or child support is received regularly.

The 1 person family size may only be used where:

- Fannie Mae Form 1009 indicates that the mortgagor is single or unmarried; and
- the results of 4506-T verification or copies of tax returns confirm that the mortgagor files tax returns as a single person.

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3.13 States Included in Regions

The Regions on the Table of Residual Income include the following states:

Region	States
Northeast	CT, MA, ME, NH, NJ, NY, PA, RI, VT
Midwest	IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
South	AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC,TN, TX, VA, VI, WV
West	AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

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4. Extenuating Circumstances and Compensating Factors

Introduction

This chapter provides policy guidance for assessing the mortgagors with extenuating circumstances and compensating factors that must be considered during the cash flow and residual income analysis

4.1 Extenuating Circumstances

Where the credit history raises concerns about the mortgagor's capacity or willingness to meet their obligations, mortgagees should consider whether there are extenuating circumstances that led to the credit/financial issues.

Extenuating circumstances beyond the borrower's control may include, but are not limited to:

- loss of income due to the death of a spouse or the financial support from family members;
- unemployment, reduced work hours and furloughs, or emergency medical treatment or hospitalization.

Mortgagees must document the presence of any extenuating circumstances as part of the financial assessment.

4.2 Compensating Factors

In assessing whether the mortgagor has demonstrated the capacity or willingness to meet financial obligations the mortgagee may consider compensating factors including:

- Low draw at closing on ARM product with access to future HECM funds. Required draw at closing must be at or below 60% of the principal limit;
- Residual income 150% or higher than the comparable figure on the Table of Residual Income in Section 2.6;
- History of good credit, timely payment of taxes and insurance even with lower residual;
- Mortgagor is retiring mortgage debt and demonstrated a history of timely mortgage payments;
- Overtime, bonus, part-time and seasonal income can be cited as a compensating factor if the mortgagee verifies and documents that the mortgagor has received this income for at least one year but less than two years, and it will likely continue

  Note: Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.

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4.2 Compensating Factors (continued)

Note: The mortgagee must provide documentation for any compensating factors cited to determine the eligibility of the mortgagor.

4.3 Evaluating the Impact of the HECM Proceeds

In addition to the extenuating circumstances and compensating factors described above, the mortgagee must also evaluate the impact of the HECM proceeds on the mortgagor's financial situation, taking into consideration:

- Debt obligations that will be eliminated as a result of the HECM;
- An increase in monthly income through term or tenure payments; and
- Imputed monthly income from the principal limit after taking into account the initial disbursement amount and payments to the mortgagor that occur during the first year disbursement period.

4.4 Documenting Extenuating Circumstances and Compensating Factors

Where the mortgagee relies upon extenuating circumstances for its determination that the mortgagor has an acceptable credit history, and/or on compensating factors for its determination that the mortgagor has acceptable residual income, these circumstances or factors must be documented.

Mortgagees must identify in writing on their financial assessment worksheet or elsewhere in the origination case binder the specific circumstances and/or factors it relied upon to make its favorable determination, and include in the origination case binder sufficient supporting documentation.

5. Property Charge Funding Requirement

Introduction

This chapter provides policy guidance for property charge funding requirements based on the results of the financial assessment.

5.1 Property Charge Payment Options

Mortgagee Letter 2013-27 specifies two options for mortgagees to require the use of HECM proceeds to pay property charges:

- a Lifetime Expectancy Set-Aside (LE Set-Aside) and
- a mortgagor authorization for the mortgagee to pay property charges from HECM monthly payments or Line of Credit as they come due.

As stated in Mortgagee Letter 2013-27, these two options apply **only** to real estate taxes and assessments, hazard insurance, and flood insurance. All other property charges must be paid directly by the HECM Mortgagee.

5.2 Mortgagor Lacks the Capacity or Willingness to Meet Their Financial Obligations

If, based on the results of the financial assessment, the mortgagee determines that the mortgagors do not have the capacity or willingness to meet these obligations:

- The mortgagee must establish a Life Expectancy (LE) Set Aside for payment of property charges; or
- The mortgage must require the mortgagor to authorize the mortgagee to pay the property charges out of mortgage proceeds by withholding funds from the monthly disbursement due the mortgagor or by charging such funds to the line of credit.

5.4 Funding Requirement for Property Charges Using Life Expectancy Set-Aside

When a Life Expectancy (LE) Set-Aside of the principal limit for property charges is required by the mortgagee or a mortgagor selects this option, the amount of the required LE Set-Aside shall be calculated based on the summation of the current tax and hazard and flood insurance property charges, adjusted to reflect anticipated increase over the term of the HECM, the expected rate, and the life expectancy from the Total Annual Loan Cost (TALC).

The LE Set-Aside calculation would be the net present value (NPV) based on life expectancy discounted using an annual discount rate equal to the sum of the expected rate plus annual MIP rate.

The LE Set-Aside will be used for the sole purpose of paying taxes and hazard and flood insurance premiums only.

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5.5
LE Set-Aside Formula

FORMULA FOR CALCULATING LIFE EXPECTANCY SET-AIDE (LESA)

$$LESA = (PC \div 12) \times \{(1 + c)^{m+1} - (1 + c)\} \div \{c \times (1 + c)^{m}\}$$

LESA is the required amount of the **L**ife **E**xpectancy **S**et-**A**side calculated time of loan origination. It is equivalent to the amount of principal limit needed to generate a monthly term payment equal to 1/12 of the annual property charge.

PC÷12 is the current total monthly **P**roperty **C**harge for taxes, hazard insurance and flood insurance.

m is the TALC life expectancy in years x 12 (e.g., for a 75 year old mortgagor, TALC life expectancy is 12 years x 12 months = 144).

c is the monthly compounding rate which is defined as the expected rate plus the annual Mortgage insurance premium (MIP) rate ÷12.

5.6
Life Expectancy Table

The figure used for life expectancy is taken from the U.S. Decennial Life Tables for 1979-81 for females found at Title 12, Part 1026, Appendix L.

The life expectancy figures to be used are provided in Appendix 2 in the fourth column titled *Loan Period 2 (life expectancy) (in years).* Mortgagees should select the age of the youngest mortgagor (rounded to the nearest whole year) and use the corresponding life expectancy figure found in the fourth column of the table for the mortgagor's life expectancy.

5.7
Mortgagee Responsibilities

Mortgagees must counsel mortgagors on the following:

- The amount of funds in the LE Set-Aside is based on the estimated life expectancy of the youngest mortgagor and may be insufficient to cover property charges for the full length of that specified amount of time.
- The mortgagor is responsible for the payment of property charges when funds in the LE Set-Aside account are insufficient or no longer available.

Mortgagees must make the property charge payment and charge the mortgagor's account, if the LE Set-Aside funds are insufficient or no longer available and the mortgagor fails to make the property charge payment in a timely manner.

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5.8 Funding Requirement for Property Charges Using Mortgage Proceeds

If the mortgagee determines that property charges must be funded through HECM proceeds based on the results of the financial assessment (or a mortgagor selects this option), mortgagees shall follow existing policy guidance found in 24 CFR § 206.205 and Handbook 4330.1 Chapter 13. The mortgagor cannot cancel this arrangement if required as a condition of the mortgage.

5.9 Funding Requirement for Property Charges When Mortgagee does not require a set aside or withholding of mortgage proceeds

If the mortgagee does not require a LE Set-Aside or withholding of the mortgage proceeds for purposes of paying property charges based on results of the financial assessment, the mortgagor can:

- select the LE Set-Aside; or
- elect to have mortgagee pay such charges in accordance with existing requirements at 24 CFR § 206.205; or
- be responsible for payment of the property charges.

Appendix 1 Model HECM Financial Assessment Worksheet

Model Financial Assessment Worksheet

Mortgagees may use the following HECM Financial Assessment Worksheet or develop their own worksheet, provided the required information on credit history, income and expenses, and the calculation of residual income is captured.

Mortgagees must also document its calculation of imputed income and maintenance and utility expenses, and identify and document any extenuating circumstances or compensating factors it relied upon in making its determination.

MODEL HECM FINANCIAL ASSESSMENT WORKSHEET FHA CASE NO.					
MORTGAGOR NAME			MORTGAGOR NAME		
PROPERTY STREET ADDRESS			PROPERTY CITY/STATE/ZIP CODE		
CREDIT HISTORY					
PROPERTY CHARGES			CREDIT ACCOUNTS		
CHARGE	MONTHLY AMOUNT	DELINQUENCY LAST 12 MONTHS	ACCOUNT	MONTHLY AMOUNT	DELINQUENCY LAST 12 MONTHS
REAL ESTATE TAXES	$				
HAZARD INSURANCE	$				
FLOOD INSURANCE	$				
HOA/PUD/CONDO FEES	$				
OTHER ASSESSMENTS	$				
TOTAL	$				

MONTHLY INCOME AND EXPENSES			
MONTHLY INCOME		MONTHLY EXPENSES	
INCOME SOURCE	MONTHLY AMOUNT	EXPENSES	MONTHLY AMOUNT
ASSET DISSIPATION	$	PROPERTY CHARGES	$
PENSION/RETIREMENT	$	UTILITIES/MAINTENANCE	$
SOCIAL SECURITY	$	INSTALLMENT DEBT	$
EMPLOYMENT	$	REVOLVING DEBT	$
RENTAL	$	FEDERAL TAXES	$
OTHER	$	STATE/LOCAL TAXES	$
OTHER		ALIMONY CHILD SUPPORT	
TOTAL	$	TOTAL	$

RESIDUAL INCOME	
TOTAL MONTHLY INCOME	$
minus TOTAL MONTHLY EXPENSES	$
RESIDUAL INCOME	$

RESULTS OF FINANCIAL ASSESSMENT	
CREDIT HISTORY	RESIDUAL INCOME
ACCEPTABLE ☐ YES ☐ NO	ACCEPTABLE ☐ YES ☐ NO
ACCEPTABLE W/EXTENUATING CIRCUMSTANCES ☐ YES ☐ NO	ACCEPTABLE W/COMPENSATING FACTORS ☐ YES ☐ NO
DE UNDERWRITER CHUMS ID	DE UNDERWRITER SIGNATURE

MODEL HECM FINANCIAL ASSESSMENT WORKSHEET FHA CASE NO

CALCULATION OF IMPUTED INCOME FROM ASSET DISSIPATION

Asset Type	Account Value		Discount Rate		Discounted Value
Lump Sum Distribution	$	x	100%	=	$
Retirement Assets	$	x	70%	=	$
Annuities	$	x	70%	=	$
Non-Retirement Assets	$	x	60%	=	$
Checking/Savings	$	x	100%	=	$
Total Discounted Value					**$**
minus Borrower Funds Needed to Close					-
Adjusted Discounted Value					**$**
Life Expectancy of Youngest Borrower In Months Age _____ x 12 =					mos.
Adjusted Discounted Value ÷ Life Expectancy = **Total Monthly Income from Assets**					**$**

CALCULATION OF MAINTENANCE AND UTLITY EXPENSES

: ________________ square feet

x .14

$ ________________ per month

EXTENUATING CIRCUMSTANCES

COMPENSATING FACTORS

Appendix 2 Life Expectancy Table

APPENDIX L TO PART 1026—ASSUMED LOAN PERIODS FOR COMPUTATIONS OF TOTAL ANNUAL LOAN COST RATES

(a) *Required tables.* In calculating the total annual loan cost rates in accordance with appendix K of this part, creditors shall assume three loan periods, as determined by the following table.

(b) *Loan periods.* (1) Loan Period 1 is a two-year loan period.

(2) Loan Period 2 is the life expectancy in years of the youngest borrower to become obligated on the reverse mortgage loan, as shown in the U.S. Decennial Life Tables for 1979-1981 for females, rounded to the nearest whole year.

(3) Loan Period 3 is the life expectancy figure in Loan Period 3, multiplied by 1.4 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

(4) At the creditor's option, an additional period may be included, which is the life expectancy figure in Loan Period 2, multiplied by .5 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

Age of youngest borrower	Loan period 1 (in years)	[Optional loan period (in years)]	Loan period 2 (life expectancy) (in years)	Loan period 3 (in years)
62	2	[11]	21	29
63	2	[10]	20	28
64	2	[10]	19	27
65	2	[9]	18	25
66	2	[9]	18	25
67	2	[9]	17	24
68	2	[8]	16	22
69	2	[8]	16	22
70	2	[8]	15	21
71	2	[7]	14	20
72	2	[7]	13	18
73	2	[7]	13	18
74	2	[6]	12	17
75	2	[6]	12	17
76	2	[6]	11	15
77	2	[5]	10	14
78	2	[5]	10	14
79	2	[5]	9	13
80	2	[5]	9	13
81	2	[4]	8	11
82	2	[4]	8	11

Age of youngest borrower	Loan period 1 (in years)	[Optional loan period (in years)]	Loan period 2 (life expectancy) (in years)	Loan period 3 (in years)
84	2	[4]	7	10
85	2	[3]	6	8
86	2	[3]	6	8
87	2	[3]	6	8
88	2	[3]	5	7
89	2	[3]	5	7
90	2	[3]	5	7
91	2	[2]	4	6
92	2	[2]	4	6
93	2	[2]	4	6
94	2	[2]	4	6
95 and over	2	[2]	3	

Appendix 3

HUD Handbook 4155.1 and 4235.1 REV-1 Reference Matrix

Introduction

This document provides policy guidance on verification requirements and documentation standards for the HECM Financial Assessment (Assessment) required by Mortgagee Letter 2013-27 for all HECMs. As stated in Mortgagee Letter 2013-27, mortgagees performing financial assessments may rely upon guidance provided in HUD Handbooks 4235.1 REV-1, *Home Equity Conversion Mortgages*, and 4155.1, *Mortgage Credit Analysis for Mortgage Insurance on One- to Four-Unit Mortgage Loans*, in completing this Assessment.

The references from HUD Handbook 4235.1 REV-1 in this document are taken verbatim, as are references from certain mortgagee letters issued since the last revision to HUD Handbook 4235.1.

The references from HUD Handbook 4155.1 in this document are taken verbatim except for the following:

- All references to HUD's TOTAL Scorecard have been deleted. HECMs may not be scored against the TOTAL Scorecard, and the documentation waivers available for mortgages received an Accept decision do not apply to HECMs.

- All references to qualifying ratios and the use of compensating factors that may be cited to exceed FHA's standard qualifying ratios have been deleted. Since HECMs do not involve a monthly mortgage payment and mortgagees do not calculate a Mortgage Payment Expense to Effective Income ratio or a Total Fixed Payment to Effective Income ratio, these references are not applicable to HECM.

This reference guide consists of two parts:

- A matrix identifying the Assessment topic, the applicable references from HUD Handbook 4155.1, and the page in this document on which the verification requirements and documentation standards may be found; and
- The specific references from HUD Handbook 4155.1.

4235.1 4-3 A Delinquent Federal debts

Delinquent Federal debts. If the borrower is presently delinquent on any Federal debt (e.g., VA-guaranteed mortgage, HUD Section 312 Rehabilitation loan or Title I loan, Federal student loan, Small Business Administration loan, delinquent Federal taxes, etc.) or has a lien, including taxes, placed against his or her property for a debt owed to the United States, the borrower is not eligible until the delinquent account is brought current, paid or otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed and is verified in writing.

4235.1 4-3 B Suspensions and debarments

Suspensions and debarments. A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a HECM. The lender must examine HUD's "Limited Denial of Participation (LDP) List" and the government-wide General Services Administration's (GSA) "List of parties Excluded from Federal Procurement or Nonprocurement Programs." If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance.

4235.1 4-4 A The borrower’s age

The borrower's age. All borrowers must be at least 62 years old when they sign the Uniform Residential Loan Application (URLA) and the HUD/VA Addendum (Form HUD 92900-A). The lender should request evidence of the ages of all borrowers, and accept all reasonable forms of evidence.

4325.1 4-4 B The borrower’s Federal credit record

The borrower's Federal credit record. The borrower cannot have a delinquent or defaulted Federal debt that cannot be satisfied at closing. Payment of an insurance claim by HUD on a previously insured mortgage does not automatically preclude the borrower from qualifying for a reverse mortgage if valid extenuating circumstances caused the foreclosure (see Paragraph 4-3).

4235.1 4-5 C The borrower’s principal residence

The borrower's principal residence. The property must be the principal residence of each borrower, as defined in Paragraph 4-7A. of this chapter. Married spouses or other co-borrowers may be living apart because one of them is temporarily or permanently in a health care facility; however at least one borrower must be living in the home in order for the HECM loan to close.

If, after a review of these requirements, the lender finds that the borrower is not eligible, the borrower should be notified of his or her ineligibility, and the application process must cease. The lender cannot charge the borrower for any services performed after this determination.

4235.1 4-7 B Credit report for each borrower

Credit report for each borrower. A merged in-file report, containing the information currently available from three consumer credit information repositories will fulfill this requirement.

4155.1 1.B.1.b Borrower Authorization for Verification of Information

The lender may ask the borrower to sign a general authorization form that gives the lender blanket authority to verify information needed to process the mortgage loan application, such as

☐past and present employment records

☐bank accounts, and

☐stock holdings.

If using a blanket authorization form, the lender

☐must attach a copy of the authorization to each verification sent, and

☐*may* use self-adhesive signature labels for laser printed verifications.

4155.1 1.B.1.f Policy Prohibiting the Use of Documents Handled by Third Parties

Lenders may not accept or use documents relating to the credit, employment, or income of borrowers that have been handled by, or transmitted from or through the equipment of interested third parties, such as

☐real estate agents

☐builders, or

☐sellers.

4155.1 1.B.1.h Maximum Age of Mortgage Loan Application Documentation

At loan closing, all documents in the mortgage loan application may be up to 120 days old, or 180 days old for new construction, unless

☐a different time frame is specified in this handbook or in other applicable HUD instructions, or

☐the nature of the documents is such that their validity for underwriting purposes is not affected by the prescribed time frame, such as

  ☐divorce decrees, or

  ☐tax returns.

If the age of documents exceeds the above limits, the lender must obtain updated written verification of the documentation.

4155.1 1.B.1.i Verification of Employment and Asset Information Sent Via Fax or Internet

Income, employment, or asset documents sent to the lender by fax must clearly identify the

☐name of the employer or depository/investment firm and the source of information, and

☐name and telephone number of the individual at the employer or financial institution responsible for verifying the accuracy of the data.

The lender is accountable for determining the authenticity of faxed documents by examining the information included at the top or banner portion of the fax.

Likewise, income/employment or asset documentation from an Internet website must clearly identify the employer or depository/investment firm's name, as well as the source of information.

Documentation from an Internet website for depository accounts must provide the same information as a standard original statement, including

☐account holder

☐account number

☐detailed transaction history, and

☐account balance.

The lender must examine portions of printouts downloaded from the Internet for authenticity. Printed web pages must

☐show the uniform resource locator (URL) address, as well as the date and time the documents were printed

☐be derived from a website that has been verified by the lender to have existed, and

☐be placed in the case binder**.**

4155.1 1.B.2.c Verification of Deposit

The lender must obtain a written Verification of Deposit (VOD) and the borrower's most recent statements for all asset accounts to be used in qualifying.

Alternative Documentation

As an alternative to obtaining a written VOD, the lender may obtain from the borrower original asset statements covering the most recent three-month period. Provided that the asset statement shows the previous month's balance, this requirement is met by obtaining the two most recent, consecutive statements.

4155.1 1.B.2.d Verification of Employment (VOE)

The lender must obtain a Verification of Employment (VOE), and the borrower's most recent pay stub.

4155.1 1.B.2.e Alternative Employment Documentation

As an alternative to obtaining a written VOE, the lender may obtain the borrower's

☐original pay stub(s) covering the most recent 30-day period, and

☐original IRS W-2 forms from the previous two years. (***Note***: Any copy of the IRS W-2 not submitted with the borrower's tax return is considered an "original". The original may be photocopied and returned to the borrower.)

The lender must also

☐verify, by telephone, all current employers

☐include in the loan file a certification stating that original documents were examined and the name, title, and telephone number of the person with whom employment was verified

☐sign and date the verification, and

☐for all loans processed in this manner, obtain a signed copy of IRS 4506-T, *Request for Copy of Tax Form*, form IRS 8821, *Tax Information Authorization*, or a document that is appropriate for obtaining tax returns directly from the IRS.

Notes:

☐The lender may also use an electronic retrieval service to obtain W-2 and tax return information.

☐The lender must use standard employment documentation if the ☐ employer will not provide telephone confirmation of employment, or

☐W-2(s) and/or pay stub(s) indicates inconsistencies (for example, Federal Insurance Contributions Act (FICA) payments not reflecting earnings).

4155.1 1.B.2.g Federal Income Tax Returns

The lender must obtain

☐federal income tax returns for the most recent two years, both individual and business, including all applicable schedules, for self-employed borrowers, and

☐individual federal tax returns for commissioned individuals.

The lender must obtain signed forms IRS 4506, IRS 8821, *Tax Information Authorization*, or whatever form or electronic retrieval service is appropriate for obtaining tax returns directly from the IRS for any loan that requires the borrower's tax returns

4155.1 4.C.1.a Past Credit Performance

Past credit performance is the most useful guide to

☐determining a borrower's attitude toward credit obligations, and

☐predicting a borrower's future actions.

Borrowers who have made payments on previous and current obligations in a timely manner represent a reduced risk. Conversely, if a borrower's credit history, despite adequate income to support obligations, reflects continuous slow payments, judgments, and delinquent accounts, significant compensating factors will be necessary to approve the loan.

4155.1 4.C.1.b Analyzing Credit History

When analyzing a borrower's credit history, the underwriter must examine the overall pattern of credit behavior, not just isolated occurrences of unsatisfactory or slow payments.

A period of past financial difficulty does not necessarily make the risk unacceptable, if the borrower has maintained a good payment record for a considerable time period since the financial difficulty occurred.

4155.1 4.C.1.c Documenting an Analysis of Delinquent Accounts

The lender *must* document the analysis of delinquent accounts, including whether late payments were based on

☐a disregard for financial obligations

☐an inability to manage debt, or

☐factors beyond the borrower's control, such as

☐delayed mail delivery, or

☐disputes with creditors.

Minor derogatory information occurring two or more years in the past does not require an explanation. Major indications of derogatory credit, such as judgments, collections, and other recent credit problems, require sufficient written explanation from the borrower. The explanation must make sense and be consistent with other credit information in the file.

4155.1 4.C.1.e Verifying and Documenting Non-Traditional Credit Providers

Only if a NTMCR does not exist, or such a service is unavailable, may a lender choose to obtain independent verification of credit references. Lenders must document that the providers of non-traditional credit do exist, and verify the credit information. Documents confirming the existence of a nontraditional credit provider may include

- public records from the state, county, or city, or
- other documents providing a similar level of objective information.

To verify credit information, lenders must use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant.

If a method other than NTMCR is used to verify credit information or rental references, all references obtained from individuals should be backed up with the most recent 12 months of cancelled checks.

A rental reference from a management company with payment history for the most recent 12 months may be used in lieu of 12 months of cancelled checks.

4155.1 4.C.1.f Non-Traditional Mortgage Credit Report (NTMCR)

Lenders may use a NTMCR developed by a credit reporting agency as an alternative method for developing a credit history. Use of this type of report requires that the credit reporting agency has verified

- 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.

4155.1 4.C.2.a Hierarchy of Credit Review

Evaluating credit involves reviewing payment histories in the following order:

☐first: previous housing expenses, including utilities,

☐second: installment debts,

☐third: revolving accounts.

Generally, a borrower is considered to have an acceptable credit history if he/she does not have late housing or installment debt payments, unless there is major derogatory credit on his/her revolving accounts.

4155.1 4.C.2.b Reviewing Previous Rental or Mortgage Payment History

The borrower’s housing obligation payment history holds significant importance when evaluating credit. 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 mortgage received directly from the mortgage servicer, or

☐review of canceled checks that cover the most recent 12-month period.

4155.1 4.C.2.c Recent and/ or Undisclosed Debts and Inquiries

Lenders *must* determine the purpose of any recent debts, as the borrower may have incurred the indebtedness to obtain the required cash investment

A borrower *must* provide a satisfactory explanation for any significant debt that is shown on the credit report but not listed on the loan application.

Written explanation is required for all inquiries shown on the credit report for the last 90 days.

4155.1 4.C.2.g Chapter 7 Bankruptcy

A Chapter 7 bankruptcy (liquidation) does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. During this time, the borrower
must have:

☐re-established good credit, or

☐chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable for an FHA-insured mortgage, if the borrower

☐can show that the bankruptcy was caused by extenuating circumstances beyond his/her control, and

☐has since exhibited a documented ability to manage his/her financial affairs in a responsible manner.

Note: The lender must document that the borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

4155.1 4.C.2.h Chapter 13 Bankruptcy

FHA-insured mortgage, provided that the lender documents that

☐ one year of the pay-out period under the bankruptcy has elapsed

☐ 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 mortgage transaction.

4155.1 4.C.3.a Evaluating Non-Traditional Credit

When evaluating a borrower with non-traditional credit history, a satisfactory credit history, at least 12 months in duration, must include

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

Important: Borrowers with non-traditional or insufficient credit are eligible for maximum financing, but must meet the all underwriting guidance provided in HUD 4155.1 4.C.3.

4155.1 4.C.3.b Evaluating Borrowers With Insufficient Credit

When evaluating a borrower with no credit references, or only Group II references as outlined in HUD 4155.1 1.C.5.f, a satisfactory credit history, at least 12 months in duration, must include

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

4155.1 4.C.4.a Types of Recurring Obligations

Recurring obligations include

- ☐all installment loans
- ☐revolving charge accounts
- ☐real estate loans
- ☐alimony
- ☐child support, and
- ☐other continuing obligations.

4155.1 4.C.4.c Revolving Account Minimum Monthly Payment

If the credit report shows a revolving account with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of

- ☐5% of the outstanding balance, or
- ☐$10.

Note*:* If the actual monthly payment is documented from the creditor or the lender obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

4155.1 4.C.5.a Definition: Contingent Liability

A ***contingent liability*** exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

4155.1 4.C.5.b Application of Contingent Liability Policies

The contingent liability policies described in this topic apply *unless* the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

4155.1 4.C.5.c Contingent Liability on Mortgage Assumptions

The underwriter must consider a contingent liability when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that he/she

- ☐has sold or traded within the last 12 months without a release of liability, or
- ☐is about to sell on assumption without a release of liability being obtained.

4155.1 4.C.5.d Exemption From Contingent Liability on Mortgage Assumptions

When a mortgage is assumed, contingent liabilities need *not* be considered if

- ☐the originating lender of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or
- ☐the value of the property, as established by an appraisal or the sales price on the HUD-1, *Settlement Statement* from the sale of the property, minus the upfront mortgage insurance premium (UFMIP), results in an loan-to-value (LTV) ratio of 75% or less.

4155.1 4.C.5.e Contingent Liability on Cosigned Obligations

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for an FHA-insured mortgage is a cosigner/co-obligor on a

☐ car loan

☐ student loan

☐ mortgage, or

☐ any other obligation.

If the lender obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

4155.1 4.C.6.a Projected Obligations

Debt payments such as a student loan or balloon note scheduled to begin or come due within 12 months of the mortgage loan closing must be included by the lender as anticipated monthly obligations during the underwriting analysis.

Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.

4155.1 4.D.1.b Verifying Employment History

To be eligible for a mortgage, FHA does not require a minimum length of time that a borrower must have held a position of employment. However, the lender must verify the borrower's employment for the most recent two full years, and the borrower must

☐explain any gaps in employment that span one or more months, and

☐indicate if he/she was in school or the military during the most recent two full years, providing evidence supporting this claim, such as

  ☐college transcripts, or

  ☐discharge papers.

Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the lender.

Note: A borrower with a 25% or greater ownership interest in a business is considered self employed and will be evaluated as a self employed borrower for underwriting purposes.

4155.1 4.D.1.c Analyzing a Borrower's Employment Record

When analyzing the probability of continued employment, the lender must examine

☐the borrower's past employment record

☐qualifications for the position

☐previous training and education, and

☐the employer's confirmation of continued employment.

The underwriter should favorably consider a borrower for a mortgage if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

4155.1 4.D.1.d Borrowers Returning to Work After Extended Absences

A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she

- ☐ is employed in the current job for six months or longer, and
- ☐ can document a two year work history prior to an absence from employment using
  - ☐ traditional employment verifications, and/or
  - ☐ copies of W-2 forms or pay stubs.

Note: An acceptable employment situation includes an individual who took several years off from employment to raise children, then returned to the workforce.

4155.1 4.D.2.a General Policy on Borrower Income Analysis

The lender *must* analyze the income of each borrower who will be obligated for the mortgage debt to determine whether the borrower's income level can be reasonably expected to continue through at least the first three years of the mortgage loan.

In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective, if properly verified and documented by the lender.

Notes:

Effective income for a borrower planning to retire during the first three-year period *must* include the amount of

- ☐ documented retirement benefits
- ☐ Social Security payments, or
- ☐ other payments expected to be received in retirement.
- ☐ Lenders *must not* ask the borrower about possible future maternity leave.

4155.1 4.D.2.b Overtime and Bonus Income

Overtime and bonus income can be used to qualify the borrower if he/she has received this income for the past two years, and it will likely continue. If the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.

The lender must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided the lender can justify and document in writing the reason for using the income for qualifying purposes.

4155.1 4.D.2.c Overtime and Bonus Income Earning Trend

The lender *must* establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the lender *must* document in writing a sound rationalization for including the income when qualifying the borrower.

A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

4155.1 4.D.2.d Qualifying Part-Time Income

Part-time and seasonal income can be used to qualify the borrower if the lender documents that the borrower has worked the part-time job uninterrupted for the past two years, and plans to continue. Many low and moderate income families rely on part-time and seasonal income for day to day needs, and lenders should not restrict consideration of such income when qualifying these borrowers.

Part-time income received for less than two years may be included as effective income, provided that the lender justifies and documents that the income is likely to continue.

Note: For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job and it is worked less than 40 hours.

4155.1 4.D.2.e Income From Seasonal Employment

Seasonal income is considered uninterrupted, and may be used to qualify the borrower, if the lender documents that the borrower

☐ has worked the same job for the past two years, and

☐ expects to be rehired the next season.

Seasonal employment includes

☐ umpiring baseball games in the summer, or

☐ working at a department store during the holiday shopping season.

4155.1 4.D.2.f Primary Employment Less Than 40 Hour Work Week

When a borrower's primary employment is less than a typical 40-hour work week, the lender should evaluate the stability of that income as regular, ongoing primary employment.

Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.

4155.1 4.D.2.g Commission Income

Commission income *must* be averaged over the previous two years. To qualify with commission income, the borrower must provide

☐copies of signed tax returns for the last two years, and

☐the most recent pay stub.

Commission income showing a decrease from one year to the next requires significant compensating factors before a borrower can be approved for the loan.

A borrower whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can

☐document the likelihood that the income will continue, and

☐soundly rationalize accepting the commission income.

Notes:

☐Unreimbursed business expenses must be subtracted from gross income.

☐A commissioned borrower is one who receives more than 25% of his/her annual income from commissions.

☐A tax transcript obtained directly from the Internal Revenue Service (IRS) may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the borrower.

4155.1 4.D.2.h Commission Income Earned for Less Than One Year

Commission income earned for less than one year is *not* considered effective income. Exceptions may be made for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer.

A borrower may also qualify when the portion of earnings *not* attributed to commissions would be sufficient to qualify the borrower for the mortgage.

4155.1 4.D.2.j Retirement Income

Retirement income must be verified from the former employer, or from Federal tax returns.

4155.1 4.D.2.k Social Security Income

Social Security income must be verified by the Social Security Administration (SSA) or from Federal tax returns. If any benefits expire within the first full three years of the loan, the income may *only* be considered as a compensating factor.

Notes:

☐The lender must obtain a complete copy of the current awards letter.

☐Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required.

☐Some portion of Social Security income may be "grossed-up" if deemed nontaxable by the IRS.

4155.1 4.D.2.l Automobile Allowances and Expense Account Payments

Only the amount by which the borrower's automobile allowance or expense account payments *exceed* actual expenditures may be considered income. To establish the amount to add to gross income, the borrower must provide

☐IRS Form 2106, *Employee Business Expenses*, for the previous two years, and

☐employer verification that the payments will continue.

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

☐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.

4155.1 4.D.3.a Income Documentation for Borrower Employed by Family-Owned Business

In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include

☐copies of signed personal tax returns, or

☐a signed copy of the corporate tax return showing ownership percentage.

Note: A tax transcript obtained directly from the Internal Revenue Service (IRS) may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the borrower.

4155.1 4.D.4.a Definition: Self Employed Borrower

A borrower with a 25% or greater ownership interest in a business is considered ***self employed*** for FHA loan underwriting purposes.

4155.1 4.D.4.b Types of Business Structures

There are four basic types of business structures. They include

☐sole proprietorships

☐corporations

☐limited liability or "S" corporations, and

☐partnerships.

4155.1 4.D.4.c Minimum Length of Self Employment

Income from self employment is considered stable and effective, if the borrower has been self employed for two or more years. Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self employed for less than two years.

If the period of self employment is ...	Then ...
between one and two years	to be eligible for a mortgage loan, the individual must have at least two years of documented previous successful employment in the line of work in which he/she is self employed, or in a related occupation. ***Note***: A combination of one year of employment and formal education or training in the line of work in which the individual is self employed or in a related occupation is also acceptable.
less than one year	the income from the borrower may not be considered effective income.

4155.1 4.D.4.d General Documentation Requirements for Self Employed Borrowers

Self employed borrowers must provide

- ☐signed, dated individual tax returns, with all applicable tax schedules for the most recent two years
- ☐for a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules
- ☐a year-to-date profit and loss (P&L) statement and balance sheet, and
- ☐a business credit report for corporations and “S” corporations.

4155.1 4.D.4.e Establishing a Self Employed Borrower’s Earnings Trend

When qualifying a self employed borrower for a mortgage loan, the lender must establish the borrower’s earnings trend from the previous two years using the borrower’s tax returns.
If a borrower

- ☐provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
- ☐is *not* subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years’ earnings.

If the P&L statements submitted for the current year show an income stream considerably *greater* than what is supported by the previous year’s tax returns, the lender must base the income analysis solely on the income verified through the tax returns.

If the borrower’s earnings trend for the previous two years is *downward* and the most recent tax return or P&L is *less than the prior year’s tax return*, the borrower’s most recent year’s tax return or P&L must be used to calculate his/her income.

4155.1 4.D.4.g Analyzing the Business's Financial Strength

To determine if the borrower's business is expected to generate sufficient income for his/her needs, the lender must carefully analyze the business's financial strength, including the

- ☐source of the business's income
- ☐general economic outlook for similar businesses in the area.

Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines.

4155.1 4.D.5.a Adjusting Income Based on Review of IRS Form 1040

The amount shown on a borrower's Internal Revenue Service (IRS) Form 1040 as *adjusted gross income* (line 37) must either be increased or decreased based on the lender's analysis of the individual tax return and any related tax schedules

4155.1 4.D.5.b Analyzing IRS Form 1040

The table below contains guidelines for analyzing IRS Form 1040.

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the individual ☐ is a salaried employee of a corporation, or ☐ has other sources of income. This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to the adjusted gross income.
Rents, Royalties, Partnerships (from Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earning 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. The lender must document anticipated continuation of income through verified assets. ***Example***: A lender can consider the capital gains as income for an individual who purchases old houses, remodels them, and sells them for profit.

Interest and Dividend Income (from Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it ☐has been received for the past two years, and ☐is expected to continue. If the interest-bearing asset will be liquidated as a source of the cash investment, the lender must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are ☐IRA and Keogh retirement deductions ☐penalties on early withdrawal of savings ☐health insurance deductions, and ☐alimony payments.
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.

4155.1 4.D.6.a Definition: Corporation

A ***corporation*** is a state-chartered business owned by its stockholders.

4155.1 4.D.6.b Obtaining Borrower Percentage of Corporate Ownership

Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the

☐corporate tax return (Internal Revenue Service (IRS) Form 1120), and

☐individual tax returns.

When a borrower's percentage of ownership does not appear on the tax returns, the lender *must* obtain the information from the corporation's accountant, along with evidence that the borrower has the right to any compensation.

4155.1 4.D.6.c Analyzing Corporate Tax Returns

In order to determine a self employed borrower's income from a corporation, the adjusted business income must

☐be determined, and

☐multiplied by the borrower's percentage of ownership in the business.

The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability.
Fiscal Year vs. Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

4155.1 4.D.7.a Definition: "S" Corporation

An ***"S" corporation*** is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.

Income for owners of "S" corporations comes from W-2 wages, and is taxed at the individual rate. The Internal Revenue Service (IRS) Form 1120S, *Compensation of Officers* line item is transferred to the borrower's individual IRS Form 1040.

4155.1 4.D.7.b Analyzing "S" Corporation Tax Returns

"S" corporation depreciation and depletion may be added back to income in proportion to the borrower's share of ownership in the corporation. In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year.

Important: The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.

4155.1 4.D.8.a Definition: Partnership

A ***Partnership*** is formed when two or more individuals form a business, and share in profits, losses, and responsibility for running the company.

Each partner pays taxes on his/her proportionate share of the partnership's net income.

4155.1 4.D.8.b Analyzing Partnership Tax Returns

Both general and limited partnerships report income on Internal Revenue Service (IRS) Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.

The lender must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the borrower's share of income.

Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year.

Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating, and must be considered in the income analysis.

4155.1 4.E.1.a Alimony, Child Support and Maintenance Income Criteria

Alimony, child support, or maintenance income may be considered effective, if

- ☐payments are likely to be received consistently for the first three years of the mortgage
- ☐the borrower provides the required documentation, which includes a copy of the
  - ☐final divorce decree
  - ☐legal separation agreement,
  - ☐court order, or
  - ☐voluntary payment agreement, and
- ☐the borrower can provide acceptable evidence that payments have been received during the last 12 months, such as
  - ☐Cancelled checks
  - ☐Deposit slips
  - ☐Tax returns, or
  - ☐Court records.

Notes:

- ☐Periods less than 12 months may be acceptable, provided the lender can adequately document the payer's ability and willingness to make timely payments.

4155.1 4.E.2.a Analyzing Interest and Dividends

Interest and dividend income may be used for qualifying as long as tax returns or account statements support a two-year receipt history. This income must be averaged over two years.

The underwriter should subtract any funds derived from these sources that are required for the cash investment, before calculating the projected interest or dividend income.

4155.1 4.E.2.b Trust Income

Income from trusts may be used for qualifying if guaranteed, constant payments will continue for at least the first three years of the mortgage term. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the

☐amount of the trust

☐frequency of distribution, and

☐duration of payments.

The borrower may withdraw funds from the trust account to use for the required cash investment if he/she provides adequate documentation that this withdrawal will not negatively affect the amount of trust income the underwriter used to determine repayment ability.

4155.1 4.E.2.c Notes Receivable Income

In order to include notes receivable income to qualify a borrower, he/she must provide

☐a copy of the note, to establish the amount and length of payment, and

☐evidence that these payments have been consistently received for the last 12 months, in the form of

  ☐deposit slips

  ☐cancelled checks, or

  ☐tax returns.

If the borrower is not the original payee on the note, the lender must establish that the borrower is now a holder in due course, and able to enforce the note.

4155.1 4.E.3.a Military Income

Military personnel receive base pay, and are often entitled to additional forms of pay, such as

☐variable housing allowances

☐clothing allowances

☐flight or hazard pay

☐rations, and

☐proficiency pay.

These types of additional pay are acceptable when analyzing a borrower's income as long as the probability of such pay to continue is verified in writing.

Note: The tax-exempt nature of some of the above payments should also be considered.

4155.1 4.E.3.b VA Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable income for qualifying, provided the lender receives documentation from the VA. Education benefits used to offset education expenses are *not* acceptable.

4155.1 4.E.3.c Government Assistance Programs

Income received from government assistance programs is acceptable for qualifying, as long as the paying agency provides documentation indicating that the income is expected to continue for at least three years.

If the income will not be received for at least three years, it may be considered as a compensating factor.

Unemployment income *must* be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.

4155.1 4.E.4.a Analyzing the Stability of Rental Income

Rent received for properties owned by the borrower is acceptable income for qualifying as long as the lender can document the stability of the rental income through a(n)

☐current lease

☐agreement to lease, or

☐rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation).

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application (URLA).

Note: The underwriting analysis may *not* consider rental income from any property being vacated by the borrower, except under the circumstances described in HUD 4155.1 4.E.4.h.

4155.1 4.E.4.b Rental Income from Borrower Occupied Property

The rent for multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.

Projected rent for the tenant-occupied units may

☐ *only* be considered gross income, after deducting the Homeownership Center's (HOC vacancy and maintenance factor, and

☐*not* be used as a direct offset to the mortgage payment.

4155.1 4.E.4.c Income from Roommates in a Single Family Property

Income from roommates in a single family property occupied as the borrower's primary residence is *not* acceptable for qualifying. Rental income from boarders, however, *is* acceptable, if the boarders are related by blood, marriage or law.

The rental income may be considered effective if shown on the borrower's tax return. If not on the tax return, rental income paid by the boarder must be adequately documented by the lender.

4155.1 4.E.4.d Documentation Required to Verify Rental Income

Analysis of the following required documentation is necessary to verify all borrower rental income:

☐IRS Form 1040 Schedule E, as described in HUD 4155.1 4.D.5.b, and

☐current leases/rental agreements, as described in HUD 4155.1 4.E.4.f.

4155.1 4.E.4.e Analyzing IRS Form 1040 Schedule E

Schedule E to the Internal Revenue Service (IRS) Form 1040 is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss.

Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring monthly liability.

The lender *must* confirm that the borrower still owns each property listed, by comparing Schedule E with the Real Estate Owned section of the URLA. If the borrower owns six or more units in the same general area, a map must be provided disclosing the locations of the units, as evidence of compliance with FHA's seven-unit limitation.

4155.1 4.E.4.f Using Current Leases to Analyze Rental Income

The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, which is not shown on Schedule E.
In order to calculate the rental income

☐reduce the gross rental amount by 25% (or the percentage developed by the jurisdictional HOC) for vacancies and maintenance

☐subtract PITI, and any homeowners' association (HOA) dues, and

☐apply the resulting amount to

☐income, if positive, or

☐recurring debts, if negative.

4155.1 4.E.4.g Exclusion of Rental Income From Property Being Vacated by the Borrower

Underwriters may *not* consider any rental income from a borrower's principal residence that is being vacated in favor of another principal residence, except under the conditions described in HUD 4155.1 4.E.4.h

Notes:

☐This policy assures that a borrower either has sufficient income to make both mortgage payments without any rental income, or has an equity position which makes it unlikely that he/she will default on the mortgage on the property being vacated.

☐This applies *solely* to a principal residence being vacated in favor of another principal residence. It does *not* apply to existing rental properties disclosed on the loan application and confirmed by Schedule E of IRS Form 1040.

4155.1 4.E.4.h Exceptions to the Exclusion of Rental Income from a Principal Residence Being Vacated by a Borrower

When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA HOC, *may* be considered in the underwriting analysis, under the circumstances listed in the table below.

Reference: For information on jurisdictional HOC vacancy factors, see HOC Reference Guide, *Vacancy, Collection and Maintenance Cost Factors*.

Exception	Description
Relocations	The borrower is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance. A properly executed lease agreement (that is, a lease signed by the borrower and the lessee) of at least one year's duration after the loan is closed is required. ***Note***: FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence that the first month's rent was paid to the lessee.
Sufficient Equity in Vacated Property	The borrower has a loan-to-value (LTV) ratio of 75% or less, as determined by ☐a residential appraisal no more than six months old, or ☐comparing the unpaid principal balance to the original sales price of the property. ***Note***: The appraisal may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, *Exterior-Only Inspection Residential Appraisal Report* or, for condominium units, form Fannie Mae 1075/Freddie Mac 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*.

4155.1 4.E.5.c Analyzing Projected Income

Projected or hypothetical income is *not* acceptable for qualifying purposes. However, exceptions are permitted for income from

☐cost-of-living adjustments,

☐performance raises, and

☐bonuses

For the above exceptions to apply, the income must be

☐verified in writing by the employer, and

☐scheduled to begin within 60 days of loan closing.

4155.1 4.E.5.d Projected Income for a New Job

Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.

The lender *must* verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment.

The loan is *not* eligible for endorsement if the loan closes more than 60 days before the borrower starts the new job. To be eligible for endorsement, the lender must obtain from the borrower a pay stub or other acceptable evidence indicating that he/she has started the new job.

Examples: A teacher whose contract begins with the new school year, or a physician beginning his/her residency fall into this category.

4155.1 5.B.2.b Savings and Checking Accounts

A VOD, along with the most recent bank statement, may be used to verify savings and checking accounts.

If there is a large increase in an account, or the account was recently opened, the lender must obtain from the borrower a credible explanation and documentation of the source of the funds.

4155.1 5.B.2.c Cash Saved at Home

Borrowers who have saved cash at home, and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the mortgage.

To include cash saved at home when assessing the borrower's cash assets, the

- ☐money must be verified, whether deposited in a financial institution, or held by the escrow/title company, and
- ☐borrower must provide satisfactory evidence of the ability to accumulate such savings.

4155.1 5.B.2.d Verifying Cash Saved at Home

To verify cash saved at home, the borrower must explain in writing

- ☐how the funds were accumulated, and
- ☐the amount of time it took to accumulate the funds.

The lender must determine the reasonableness of the accumulation, based on the

- ☐time period during which the funds were saved, and
- ☐borrower's
- ☐income stream
- ☐ pending habits
- ☐documented expenses, and
- ☐history of using financial institutions.

Note: Borrowers with checking and/or savings accounts are less likely to save money at home than individuals with no history of such accounts.

4155.1 5.B.2.e Cash Accumulated With Private Savings Clubs

Some borrowers may choose to use non-traditional methods to save money by making deposits into private/community savings clubs. Often, these clubs pool resources for use among the membership.

If a borrower claims that the cash to close an FHA-insured mortgage is from savings held with a private/community savings club, he/she *must* be able to adequately document the accumulation of the funds with the club.

4155.1 5.B.2.f Requirements for Private Savings Clubs

While private savings clubs are not supervised banking institutions, the clubs must, at a minimum

- ☐have account ledgers
- ☐provide
- ☐receipts from the club
- ☐verification from the club treasurer, and
- ☐identification of the club.

The lender must re-verify the information, and the underwriter must be able to determine that

- ☐it was reasonable for the borrower to have saved the money claimed, and
- ☐there is no evidence that the funds were borrowed with an expectation of repayment.

Note: If the borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation should be counted in the borrowers' total debt when calculating the qualifying ratios.

4155.1 5.B.3.b Stocks and Bonds

The lender may use the most recent monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio to verify the value of stocks and bonds. The borrower's actual receipt of funds must be verified and documented.

4155.1 5.B.3.c Savings Bonds

Government-issued bonds are counted at the original purchase price, unless eligibility for redemption and the redemption value are confirmed.

Note: The actual receipt of funds at redemption must be verified.