FHA's Office of Single Family Housing Training Module

Single Family Housing Policy Handbook 4000.1: Title II Insured Housing Program Forward Mortgages Origination through Post-Closing/Endorsement

Module 1: Introduction and Navigating the Single Family Handbook Origination/ Processing Allowable Mortgage Parameters

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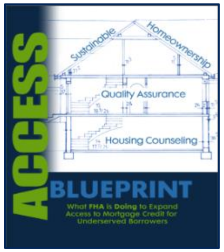
Introduction

- This module is divided into two parts; each one discussing two distinct sections of the *Single Family Housing Policy Handbook* 4000.1 (SF Handbook) :
  - Part I: Section 1, Origination/Processing; and
  - Part II: Section 2, Allowable Mortgage Parameters.
- Let's first discuss the general structure and format of the SF Handbook.



Access to Credit: *Single Family Housing Policy Handbook* 4000.1

- SF Handbook 4000.1:
  - Is the **<u>single</u>** authoritative source for FHA Single Family Housing policy;
  - Reduces defects and increases origination quality across a broader credit spectrum with policies that are easier to follow and implement; and
  - Supports increased originations of FHA endorsable mortgages for first- time and underserved Borrowers.

Structure and Format: Origination through Post-Closing/Endorsement

- Follows the traditional mortgage application process for originating and underwriting an FHA-insurable mortgage.
- It consists of **nine** sections.
- Each section identifies a broad topic category (i.e. Manual Underwriting) and progresses into sub-categories (i.e. Credit Requirements; Income Requirements).
- SF Handbook 4000.1 include separate Appendices and a Glossary of Terms.

II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

1. Origination/Processing
- a. Application and Disclosures
- b. General Mortgage Insurance Eligibility

2. Allowable Mortgage Parameters
- a. Loan-to-Value Limits
- b. Required Investment
- c. Maximum Mortgage Amounts
- d. Maximum Mortgage Term
- e. Mortgage Insurance Premiums

3. Underwriting the Property
- a. Property Acceptability Criteria
- b. Appraisal Review
- c. Required Documentation for Underwriting the Property

4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)
- a. Underwriting with an Automated
- b. Underwriting System
- c. Credit Requirements (TOTAL)
- d. Income Requirements (TOTAL)
- e. Asset Requirements (TOTAL)
- f. Final Underwriting Decision(TOTAL)

5. Manual Underwriting of the Borrower
- a. Credit Requirements (Manual)
- b. Income Requirements (Manual)
- c. Asset Requirements (Manual)
- d. Final Underwriting Decision (Manual)

6. Closing
- a. Mortgage Closing Requirements
- b. Mortgage and Note
- c. Disbursement of Loan Proceeds

7. Post-Closing and Endorsement
- a. Pre-endorsement Review
- b. Mortgagee Pre-Endorsement Review
- c. Requirements
- d. Inspection and Repair Escrow
- e. Requirements for Mortgages Pending
- f. Closing or Endorsement in Presidentially-
- g. Declared Major Disaster Areas
- h. Procedures of Post-Endorsement

8. Program and Products
- a. 203(k) Rehabilitation Mortgage Insurance Program
- b. Disasters and 203(h) Mortgage Insurance for Disaster Victims
- c. Energy Efficient Mortgages
- d. Refinances
- e. Refinance of Borrowers in Negative Equity Positions Programs (Short Refi)
- f. Section 251 Adjustable Rate Mortgages
- g. Section 248 Mortgage of Indian Land
- h. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands
- i. New Construction
- a. Construction to Permanent
- b. Building on Own Land
- c. Weatherization
- d. Solar and Wind Technologies
- e. Assumptions
- f. HUD REO Purchasing

9. 203(k) Consultant Requirements
- **a. Overview**
- **b. Consultant Duties**
- **c. Consultant Fee Schedule**
- **d. Improvements Standards**
- **e. Consultant 35 Point Checklist**
- **f. Architectural Exhibit Review**
- **g. Preparing the Work Write-Up and Cost Estimate**
- **h. Feasibility Study**
- **i. Draw Request Inspection**
- **j. Change Order**
- **k. Additional Required Documents**

Structure and Format: Origination through Post-Closing/Endorsement

- Unless otherwise stated, the main components of Origination through Post-Closing Endorsement (forward mortgages) address the standard requirements for a FHA 203(b) purchase money mortgage.

- Programs and Products subsections contain requirements specific to those programs and products that work in conjunction with other sections of the SF Handbook, only where they differ from a 203(b) purchase money mortgage.

Structure and Format: Application of Polices

- When originating a mortgage using any special product or program, apply the policies in the following order:
  1. Apply the base 203(b) purchase requirements; then
  2. Supplement or modify by any program or product specific requirements.

- Where 203(b) purchase program guidance conflicts with the specific program requirements provided on the Programs and Products section, this specific program/product guidance shall prevail.

Structure and Format: Application of Polices Using Baseline Requirements with Product Sheets

II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

5. Manual Underwriting of the Borrower

(1) Satisfactory Credit

1

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and no more than two 30-day late mortgage or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.

2

Major derogatory credit on revolving accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

Consistent Structure:

1. Baseline Requirements
2. Additional Requirements (Product Sheet)

II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

8. Programs and Products - Disasters and 203(h) Mortgage Insurance for Disaster Victims

(5) Housing payment history

The mortgagee may disregard any late payments on a previous obligation on a property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not three or more months delinquent on their mortgage at the time of the disaster.

The mortgagee may justify approval if the Borrower was three or more months delinquent if extenuating circumstances are documented by the mortgagee.

Application of Policies: Example

Example: A Mortgagee is seeking information on a Simple Refinance Mortgage:

Step 1: Review our base requirements for Refinances.

Step 2: Use the document link to go to the different types of FHA Refinance Products.

Step 3: Review the Simple Refinance description.

1

(C) Refinance

A refinance transaction is a new mortgage for a Borrower with legal title on the same property with the proceeds used to pay off any existing liens.

2

Types of Refinances

FHA insures several different types of refinance transactions:

1. No cash-out refinances of FHA-insured and non FHA-insured mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.

d. Refinances

i. Overview

(A) Definition

A Refinance Transaction is used to pay off the existing debt or to withdraw equity from the property with the proceeds of a new mortgage for a Borrower with legal title to the subject property.

(B) Types of Refinances

(1) Cash-Out

A Cash-Out Refinance is a refinance of any mortgage or a withdrawal of equity where no mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.

(2) No Cash-Out

A No Cash-Out Refinance is a refinance of any mortgage in which the mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction. FHA offers three types of no cash-out refinances:

(a) Rate and Term

Rate and Term refers to a no cash-out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.

3

(b) Simple Refinance

Simple Refinance refers to a no cash-out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject property and costs associated with the transaction.

Application of Policies: Example (cont.)

Step 4: Scroll down to Simple Refinance product specific requirements.

4

(B) Simple Refinance

(1) Borrower Eligibility

(a) Occupancy Requirements

***(i)* Standard**

Simple Refinance is only permissible for owner-occupied principal or HUD-approved Secondary Residences.

***(ii)* Required Documentation**

The mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the property as their Principal Residence.

Accessing the SF Handbook

- Lenders, mortgagees, and all other interested parties can access the SF Handbook.
- HUD's Client Information Policy Systems (HUDClips) web site on HUD.gov at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh

- Online version and portable document format (pdf) of SF Handbook 4000.1 available at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh

Part I:
Section One - Origination/Processing

Introduction: Part I

The Origination/Processing section of the SF Handbook provides the application documentation and processing standards for Single Family (1 to 4 units) mortgages to be insured under the National Housing Act.

Mortgagee Responsibility

The Mortgagee must:

- Use the **most recent version** of all required forms to conduct FHA Single Family loan originations;
- Obtain a **complete** Fannie Mae Form1003/Freddie Mac Form 65, **Uniform Residential Loan Application(URLA)** from the borrower; and
- **Provide all federal and state disclosures** to the borrower in order to begin the origination process.

Maximum Age of Documents

General Document Age:

- Documents used in origination and underwriting a mortgage may not be more than **120 days old at the Disbursement Date.**

- **Disbursement Date** refers to the date the proceeds of the mortgage are made available to the borrower.

- For purposes of **Counting Days**, day one is the day after the effective or issue date of the document, whichever is later.

Appraisal Validity

Initial Appraisal Validity:

- The initial appraisal is valid for 120 days on all mortgages—**including new construction—**from the effective date of the appraisal.
- This date is defined by the appraiser on the appraisal report.

QUESTION: Appraisal Effective Date

What is the **Effective Date** of the appraisal report?

a) The date the Appraiser signs the appraisal report.

b) The date the Appraiser inspected the property.

ANSWER: Appraisal Effective Date

What is the **Effective Date** of the appraisal report?

b) The date the Appraiser inspected the property.

Initial Appraisal Validity 30-Day Extension

The 120-day Validity period of an appraisal may be extended for 30 days at the option of the Mortgagee if:

1. The Mortgagee Loan Approval or HUD-issued Firm Commitment is issued prior to the expiration of the original appraisal; **or**

2. The Borrower signed a valid sales contract prior to the expiration date of the appraisal.

Appraisal Update

- Appraisal update must be performed before the initial appraisal has expired.
- An appraisal cannot be updated if an appraisal extension has been issued.
- The valid period for an updated appraisal is 240 days after the Effective Date of the initial appraisal report.

Appraisal Integrity

Reminder:

- The Appraisal report **must** list FHA as an **Intended User** of the Appraisal.

Handling of Documents

- Mortgagees may not accept or use any third party verifications that have been handled by, or **transmitted from or through any Interested Party,** or the borrower.
- Mortgagees must authenticate all documents received electronically or obtained from an Internet website.
- This policy **includes asset documentation.**

Handling of Documents (cont.)

- Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of borrowers that have been handled by, or transmitted from or through the equipment of **unknown parties** or **Interested Parties**.

- How do we identify an **unknown party**?

Mortgage Application

- Uniform Residential Loan Application (URLA) and HUD/VA Addendum to the URLA
- The Mortgagee must obtain **the borrower's initial completed *signed* URLA** (Fannie Mae Form 1003/Freddie Mac Form 65) and Page 2 of form HUD-92900-A ***before* underwriting** the mortgage application.

Mortgage Application: Borrower Self-Completed

- The Mortgagee must have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. **This includes borrower self-completed mortgage applications**.

Mortgage Loan Application

Non-Borrowing Spouse Community Property State:

- The debt of a Non-Borrowing Spouse **<u>must also be included on the URLA</u>** if the borrower resides in or the property to be purchased is located in a community property state.

- Obtain a Non-Borrowing Spouse's consent and authorization to verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).

Mortgage Loan Application (cont.)

Mortgage loan applications must be executed in the legal names of all parties, including the:

- Borrower(s); and
- Loan Originator.

Mortgage Loan Application (cont.)

- Governmental entities and FHA-approved nonprofit corporations may be solely in the corporation's name.

- All other mortgage applications must be executed in the name of one or more individuals. This includes trusts:

  – For a nonprofit borrower, the Mortgagee must obtain a copy of the FHA approval letter from the nonprofit. The Mortgagee must verify that the nonprofit is an eligible FHA borrower.

Mortgage Loan Application (cont.)

Government-Issued Photo ID:

- The Mortgagee must include a statement that they have verified the borrower's identity using a valid government-issued photo identification prior to endorsement of the mortgage; ***or***
- The Mortgagee may choose to include a copy of such photo identification in the case binder.

Case Numbers

- FHA mortgage loan applications do not become a FHA application of record until an FHA Case Number is assigned.

- Always remember, the FHA Case Number is **assigned to the property**, not to the borrower.

Reinstatement of Case Numbers

Automatically cancelled case numbers will only be reinstated if:

- The mortgage closed prior to the cancellation of the case number.
- Examples of acceptable documentation include:
  - Closing Disclosure; and
  - Similar legal documentation.

Transferring Case Numbers

- The original Mortgagee must assign the case number to the new Mortgagee **immediately** upon the borrower's request.
- The original Mortgagee **may** provide processing documents, but **is not required to do so**.

Transferring Existing Appraisals

- The Mortgagee, at the borrower's request, **must transfer** the appraisal to the second Mortgagee **within 5 business days**.
- The original Mortgagee **may not** charge the borrower a fee for the transfer of any documents.
- A fee **may** be negotiated between the original Mortgagee and the new Mortgagee. However, a fee for the transfer of documents for Streamline Refinance transactions is not permitted.

Transferring Existing Appraisal-New Borrower

- When an existing appraisal is being used for a different borrower, the Mortgagee must:
  - Enter the new borrower's information in FHAC; and
  - Collect the **appraisal fee from the new borrower and refund the fee to the original borrower**.

Borrower Eligibility

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section of the SF Handbook.

1. Origination/Processing
   a. Application and Disclosures
   b. General Mortgage Insurance Eligibility
      ii. Borrower Eligibility

Co-Borrower or Cosigner with Financial Interest

- A party who has a financial interest in the mortgage transaction, such as the seller, builder or real estate agent, **may not be a co-Borrower or a Cosigner**.

- **Exceptions** may be granted when the party with the financial interest is a **Family Member**.

Family Member

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- Child, parent, or grandparent;
- Spouse or domestic partner;
- Legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
- Foster child;
- Brother, stepbrother;
- Sister, stepsister;
- Uncle;
- Aunt; or
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.

Valid Social Security Number

- The mortgagee must document and validate for each borrower a their valid Social Security Number.

Exception:

- State and local government agencies, instrumentalities of government and HUD-approved Nonprofit organizations are not required to provide a SSN.

Borrower Age Requirements

- The Borrower must be old enough to enter into a mortgage note that can be legally enforced in the state, or other jurisdiction, where the property is located ("State Law").

- There is no maximum age limit for a Borrower.

Borrower Minimum Decision Credit Score

- Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same.
- Where **three** differing scores are reported, the middle score is the MDCS.
- Where **two** differing scores are reported, the MDCS is the lowest score.
- Where only **one** score is reported, that score is the MDCS.

Multiple Borrowers Minimum Decision Credit Score

- Where the mortgage involves multiple Borrowers, the Mortgagee must determine the MDCS for each Borrower, and then select the lowest MDCS for all Borrowers.
- Where the mortgage involves multiple Borrowers and one or more of the Borrowers does not have a credit score (non-traditional or insufficient credit), the Mortgagee must select the lowest MDCS of the Borrower(s) with credit score(s).
- Where the mortgage involves multiple Borrowers and **none of the Borrowers report a credit score**, the Borrowers may **still be eligible for FHA-insured financing** (non-traditional or insufficient credit).

Eligibility Requirement Minimum Decision Credit Score

- The Borrower is **not eligible** for FHA-insured financing if the **MDCS is less than 500**.

Co-Borrower vs. Cosigner Requirements

Co-Borrower	Cosigner
Liable for the debt	Liable for the debt
Obligated on the Note or credit instrument	Obligated on the Note or credit instrument
Must have an ownership interest in the property	Does not have an ownership interest in the property
Executes the security instruments	Does not execute the the security instruments

- In community property states, the Borrower's spouse is not required to be a Borrower or Cosigner.

Non-Occupying Co-Borrowers or Cosigners

Non-occupying co-borrowers or cosigners must either be:

- United States (U.S.) citizens; **or**
- Have a Principal Residence in the U.S.

Military Personnel Eligibility

Borrowers who are military personnel, who cannot physically reside in a property because they are on **Active Duty, are still considered owner occupants** and are eligible for maximum financing if:

- A **Family Member** of the Borrower will occupy the **subject property as their Principal Residence; or**
- The Borrower **intends** to **occupy the subject property upon discharge from military service**.

Military Personnel Eligibility (cont.)

The Mortgagee must:

- Obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status;
- Document that the Borrower's duty station is more than 100 miles from the subject property; and
- Obtain the Borrower's intent to occupy the subject property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.

Citizenship, Immigration, and U.S. Residency Status

- U.S. citizenship is not required.
- The Mortgagee must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation.
- A Social Security card is never sufficient to prove immigration or work status.

Lawful Permanent Resident Aliens

Standard:

- A Borrower with lawful permanent resident alien status may be eligible for FHA financing if the Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

Required Documentation:

- Must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on the URLA.
- The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

Non-Permanent Resident Aliens

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing, provided:

- The property will be the **Borrower's Principal Residence**;
- The Borrower has a **valid SSN**, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- The Borrower **is eligible to work in the United States**, as evidenced by the Employment Authorization Document (EAD) issued by the USCIS; and
- The Borrower satisfies the **same requirements**, terms and conditions as those for **U.S. citizens**.

Non-Permanent Resident Aliens: Employment Authorization Document (EAD)

- The EAD is required to substantiate work status.
- If the EAD will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted.
- If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.

Non-Permanent Resident Aliens: Refugee or Asylee

- A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country.
- The EAD is not required, but documentation substantiating the refugee or asylee status must be obtained.

Non-U.S. Citizens without Lawful Residency

- Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured mortgages.

Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt

- Mortgagees are prohibited from processing an application for an FHA-insured mortgage for Borrowers with delinquent federal non-tax debt, including deficiency judgments and other debt associated with past FHA-insured mortgages.

Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt (cont.)

- Mortgagees **are required to determine** whether the Borrowers have **delinquent federal non-tax debt**.

- Mortgagees may obtain information on delinquent federal debts from public records, credit reports or equivalent, and must check all Borrowers against the **Credit Alert Verification Reporting System (CAIVRS)**.

Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt: CAIVRS

- If the debt was identified through CAIVRS, the Mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

- If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured mortgage until the Borrower resolves the debt with the creditor agency.

- The Mortgagee may not deny a mortgage solely on the basis of CAIVRS information that has not been verified by the Mortgagee.

- If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the mortgage application.

Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt: CAIVRS (cont.)

- In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act. The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

- The Mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt.

- For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

Borrowers Delinquent on FHA-Insured Mortgages

- If a Borrower is currently delinquent on an FHA-insured mortgage, they are ineligible for a new FHA-insured mortgage unless the delinquency is resolved.

Delinquent Federal Tax Debt

- Borrowers with delinquent Federal Tax Debt are ineligible.
- Mortgagees must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

Delinquent Federal Tax Debt (cont.)

- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments.

- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments

- The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

Delinquent Federal Non-Tax Debt vs. Delinquent Federal Tax Debt

Federal Non-Tax Debt

CAIVRS (or other means)

Debt Collection Improvement Act

Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

Clear CAIVRS Report

Federal Tax Debt

- Does not report on CAIVRS
- Delinquency must be resolved (paid satisfied or payment arrangement)

Credit Alert Verification Reporting System (CAIVRS)

- Mortgagees must check all borrowers against the Credit Alert Verification Reporting System (CAIVRS).

- This includes borrowers impacted by federally declared disasters.

Valid First Liens

- The Mortgagee must ensure that the mortgaged property will be free and clear of all liens, except the insured mortgage and any secondary liens permitted by FHA regulations at 24 CFR §§ 203.32 and 203.41.

Consent of Non-Borrowing Spouse

- To perfect a **valid first lien under state law**, the Mortgagee must require a **non-borrowing spouse** to execute either the security instrument or documentation indicating that they are relinquishing all rights to the property.

Tax Liens

- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement.
- The Mortgagee must document that the Borrower has made timely payments for at least three months of scheduled payments.
- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
- The lien holder must subordinate the tax lien to the FHA-insured mortgage.

Eligibility Criteria for Nonprofit Organizations

HUD-approved Nonprofit Organizations:

- Must be listed on the HUD Nonprofit Agency Roster and intend to sell or lease the property to low-or-moderate income families.
- Are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.
- May only obtain FHA-insured fixed rate mortgages.
- Are not eligible for cash-out refinances.

Eligibility Criteria for State and Local Government Agencies

State and Local Government Agencies and instrumentalities of government may obtain FHA-insured financing provided:

- The agency has the legal authority to become the Borrower;
- The particular state or local government is not in bankruptcy; and
- There is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government.

Eligibility Criteria for State and Local Government Agencies (cont.)

State and Local Government Agencies and instrumentalities of government:

- Are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.
  - May only obtain FHA-insured fixed rate mortgages.
- Are not eligible for cash-out refinances.
- The Mortgagee must obtain an opinion from counsel verifying the legal status requirements of the agency.

Living Trusts

- The Mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided:
  - The beneficiary of the living trust is a cosigner;
  - The beneficiary will occupy the property as their Principal Residence; and
  - The trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property.
- The mortgage must obtain a copy of the trust documentation.

Living Trusts and Security Instruments

- The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed.
- The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.
- The name of the individual Borrower **is not required to appear on the property deed or title**.

Excluded Parties

A mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- Borrower;
- Seller (except where selling the Principal Residence);
- Listing and selling real estate agent;
- Loan originator;
- Loan processor;
- Underwriter;
- Appraiser; and
- 203(k) Consultant.

Excluded Parties (cont.)

- The Mortgagee must verify and certify that the participants involved in the transactions are not identified as Excluded Parties on form HUD-92900-LT , *FHA Loan Underwriting and Transmittal Summary.*

- The Mortgagee must check the **"Yes"** box on form HUD-92900-LT if the Borrower **appears on either the LDP or SAM list**.

Principal Residence

- A dwelling where a Borrower maintains or will maintain a permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year.
- At least one Borrower must occupy the Property within 60 days of signing the security instrument and intend to continue occupancy for at least one year.
- Unless specified in the policy exceptions, a Borrower can only have one FHA loan at a time for a Principal Residence.

Exceptions to the Number of FHA Mortgages per Borrower - Relocation

- A Borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage if the Borrower is:
  - Relocating or has relocated for an employment-related reason; and
  - Establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence.

- If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured mortgage on a new Principal Residence, provided the relocation meets the two requirements above.

Exceptions to the Number of FHA Mortgages per Borrower - Other

- An increase in family size that renders the property inadequate to meet the family's housing needs and the loan-to-value on the current home is equal to or less than 75 percent.
- The Borrower is vacating a jointly-owned property, with no intent to return, that will remain occupied by an existing co-Borrower.
- A non-occupying co-Borrower on an existing FHA loan may qualify for another FHA loan to purchase a Principal Residence.

Secondary Residence

- A dwelling that a Borrower occupies, in addition to their Principal Residence, but less than the majority of the calendar year.

- A Secondary Residence does not include a Vacation Home.

- The Mortgagee must include in the case file:
  - A satisfactory explanation of the need for a Secondary Residence and the lack of available rental housing; and
  - Written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

Secondary Residence

Secondary Residences are only permitted with written approval from the Jurisdictional HOC after a determination that:

- The Borrower has no other Secondary Residence;
- The Secondary Residence will not be a Vacation Home or otherwise be used primarily for recreational purposes;
- The commuting distance to the Borrower's workplace creates an undue hardship on the Borrower;
- There is no affordable rental housing meeting the Borrower's needs within 100 miles of the Borrower's workplace; and
- The maximum mortgage amount is 85 percent of the lesser of the appraised value or sales price.

Property Flipping

- Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

- It is indicative of a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value.

- Eligibility for FHA financing is determined by:

Date the seller acquired title to the Property → Date of execution of the sales contract that will result in the FHA loan

Time elapsed between these two dates

Restrictions on Property Flipping

- **Seller's Date of Acquisition:**
  - FHA defines the **seller's date of acquisition** as the date of settlement on the seller's purchase of that property.

- **Resale Date:**
  - FHA defines the **resale date** as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured mortgage.

Restriction on Resales Occurring 90 Days or Fewer After Acquisition

- If a property is resold within 90 days or fewer following the date of acquisition by the seller, the property is not eligible for an FHA-insured mortgage.
- However, there are exceptions to this time restriction.

Exceptions to Time Restrictions on Resale

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- Sales of Properties that are acquired by the seller by inheritance;
- Resales by HUD under its REO program; and
- Sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

Exceptions to Time Restrictions on Resale (cont.)

- Sales of Properties by nonprofits approved to purchase HUD-owned Single Family Properties at a discount with resale restrictions;
- Sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSEs);
- Sales of Properties by local and state government agencies; and
- Sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

Resales Occurring Between 91 Days and 180 Days After Acquisition

- Property may be eligible for FHA financing subject to second appraisal requirements.

- Mortgagee must obtain a second appraisal by another Appraiser if:
  - The resale date of a Property is between 91 and 180 days following the acquisition of the Property by the seller; **and**
  - The resale price is 100 percent or more over the price paid by the seller to acquire the Property.

Resales Occurring Between 91 Days and 180 Days After Acquisition (cont.)

- If the second appraisal supports a value of the Property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value.

- The cost of the second appraisal may not be charged to the Borrower.

Condominium Unit

- As stated in the Origination/Underwriting Section:
  - A **Condominium Project** must be FHA approved before a mortgage on an individual Condominium Unit can be insured.
- A Condominium Unit may be either attached in one or more Structures or detached from each other, and is primarily residential in use.
- FHA existing Condominium Project Approval requirements, located in Mortgagee Letter 2012-18, and the Condominium Project Approval and Processing Guide attached to Mortgagee Letter 2011-22 continue to be applicable.

Communications with Third Parties: Appraisal

***Just a Reminder*:**

- Mortgagees **may not discuss** the **contents of the appraisal** with anyone other than the Borrower.

- Yes, this includes **Real Estate Agents**.

Summary

During this module we covered policy clarifications contained within the Origination/Processing section of the SF Handbook 4000.1, including:

- Application Requirements;
- URLA and 92900-A Borrower Signature Prior to Underwriting;
- Appraisal Validity;
- Borrower Eligibility;
- Case Number Assignments; and
- Mile Radius Factors to Provide Clarification on Relocation and Secondary Residence Considerations.

Part II: Allowable Mortgage Parameters

FHA Single Family Housing Policy Handbook

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Introduction: Part II

The Allowable Mortgage Parameters section of the SF Handbook provides the basic underwriting standards for Single Family (1- to 4-units) mortgages insured under the National Housing Act.

Maximum Mortgage Amount

A mortgage that is to be insured by FHA cannot exceed the:

- Nationwide Mortgage Limits;
- Nationwide Area Mortgage Limits; and
- Maximum Loan-to-Value (LTV) ratio.

Unless otherwise stated, restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP)(Base Loan Amount). The total mortgage amount may be increased by the financed UFMIP amount.

National Housing Act and Maximum Mortgage Limits

- The National Housing Act established the maximum mortgage limits and the mortgage amounts for all FHA mortgage insurance programs.

Nationwide Mortgage Limits

- Mortgage limits are calculated based on the median house prices and are established for Metropolitan Statistical Area (MSA) and county.
- FHA publishes the updated mortgage limits for each calendar year.
- The limits are set at or between low and high cost area limits based on the median house prices for the area.

Requests to Change Mortgage Limits

- All requests to change Mortgage Limits in all areas will be handled exclusively by FHA's Santa Ana Homeownership Center.

  Attn: Program Support/Loan Limits

  U.S. Department of Housing and Urban Development

  Santa Ana Homeownership Center

  Santa Ana Federal Building

  34 Civic Center Plaza, Room 7015

  Santa Ana, CA 92701-4003

Maximum LTV on Purchase Transactions

- The maximum LTV is 96.5% of the **Adjusted Value**.
- The maximum LTV is determined in accordance with the requirements listed in the SF Handbook:
  - Borrower's MDCS;
  - Programs and Products Section; and
  - LTV restrictions.

Maximum Mortgage Amounts on Purchases

- The maximum mortgage amount that FHA will insure on a specific purchase is calculated by:
  - Multiplying the appropriate LTV percentage by the **Adjusted Value**.

Adjusted Value and Property Value

- The **Adjusted Value** is the determined value of the property used for making an FHA Insured Mortgage Loan.
- **Property Value** refers to the value as determined by the FHA Roster Appraiser.
- For purchase transactions, the **Adjusted Value** is the **lesser of the**:
  - Purchase price less any **Inducements to Purchase**; **or**
  - Property Value.

Inducements to Purchase

- Inducements to Purchase refer to certain expenses paid by the Seller and/or other Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.

Examples of Inducements to Purchase

Inducements include, but are not limited to:

- Contributions exceeding 6 percent of the Adjusted Value;
- Contributions exceeding the origination fees, other closing costs, and discount points;
- Decorating allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Paying off consumer debt;
- Personal property; or
- Below-market rent, except for Borrowers who meet the Identity-of-Interest exception for family members.

Case Study: Adjusted Value Purchase

Determine the Adjusted Value for Joe and Lisa Smith's purchase transaction:

- The property value is $250,000.
- The purchase price is $250,00.
- Per the contract, the seller agreed to contribute up to 6 percent towards the buyer's closing costs plus an additional $1,250 to Alliance Moving Company.

Case Study: Adjusted Value Purchase (cont.)

- For purchase transactions, the **Adjusted Value** is the lesser of the:
  - Purchase price less any Inducements to Purchase; **or**
  - Property Value.

Adjusted Value: Refinance

- For properties acquired by the Borrower within 12 months of the case number assignment date, the **Adjusted Value** is the lesser of:
  - The Borrower's purchase price, plus any documented improvements made after the purchase; or
  - The Property Value.

- This policy applies to all FHA refinance transactions which require appraisals including, FHA-to-FHA refinance transactions.

Adjusted Value: Refinance (cont.)

- Properties acquired by the Borrower greater than or equal to 12 months prior the case assignment date; the Adjusted Value is the Property Value.

- Properties acquired by the Borrower within 12 months of application by inheritance or through a gift from a family member may:
  - Utilize the calculation of Adjusted Value for properties purchased 12 months or greater.

Case Study: Adjusted Value Refinance

- Determine the Adjusted Value for Ralph and Doreen Taylor's refinance transaction:
  – The Taylors purchased their home 10 months ago for $150,000.
  – Since then, they have remodeled their kitchen for $25,000, updated a bathroom for $5,000, and painted the full interior of their home for $15,000.
  – The Taylors believe their home now has a property value of $350,000.

Case Study: Adjusted Value Refinance (cont.)

- The Taylors are looking forward to refinancing their mortgage and using their home's new property value.

- How do we determine the Adjusted Value?
  - Was the property acquired by the Borrower within the last 12 months of the case assignment date?
  - How was the property acquired?

Case Study: The Taylors' Refinance

- Was the property acquired by Borrower within the last 12 months of the case assignment date?
  - Yes, 10 months.
- How was the property acquired?
  - Purchase.

Case Study: The Taylors' Refinance (cont.)

Since, the Taylors acquired their home within the last 12 months, will the Taylors be able to use the new appraised value?

Case Study: The Taylors' Refinance (cont.)

- Since, the Taylor's acquired their home within the last 12 months, will the Taylor's be able to use the new appraised value? **No.**

Case Study: The Taylors' Refinance (cont.)

For properties acquired by the Borrower within the 12 months of the case assignment date; the **Adjusted Value** is the ***lesser*** of:

Borrower's Purchase Price:	$ 150,000
Documented Improvements after the Purchase **(+)**:	$ 45,000
TOTAL:	$ 195,000 **(A)**
Property Value:	$ 350,000 **(B)**
Lesser of lines (A) or (B):	$ 195,000 is the **Adjusted Value.**

Adjusted Value: Refinance

- When documenting improvements made subsequent to the purchase within 12 months from case assignment date:
  - An appraisal listing the improvements and the costs made subsequent to the acquisition is not acceptable.

LTV Restrictions: Limitations Based on Identities of Interest

- An Identity-of-Interest transaction is a sale between parties with an existing Business Relationship or between Family Members.

- Business Relationship refers to an association between individuals/companies entered into for commercial purposes.

- The maximum LTV for Identity-of-Interest transactions on Principal Residences, including transactions where a tenant-landlord relationship exists at the time of contract execution, is restricted to 85 percent.

Exceptions to the Maximum LTV Limitations for Identity-of-Interest Transactions

The 85 percent maximum LTV restriction may be exceeded when:

- **Family Member Transaction**: Borrower purchases a property owned by another Family Member.
- **Builder's Employee Purchase**: Employee of a builder purchases one of the builder's new houses.
- **Corporate Transfer**: Due to transfers, a corporation buys an employee's house and sells it to another employee.
- **Tenant Purchase**: Current tenant purchases the property it has rented for at least six months predating the sales contract.

Non-Occupying Borrower Transaction: Maximum LTV

- A Non-Occupying Borrower Transaction is a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the Property as their Principal Residence.

- Non-Occupying Borrower Transactions are limited to **75 percent LTV** if:
  - A family member is selling to a family member who will be a non-occupying co-Borrower; or
  - The property is a 2- to 4-unit dwelling.

Summary Part I

During this module; we covered policy clarifications contained within the Origination/Processing section of the SF Handbook, including:

- Application Requirements;
- URLA and 92900-A Borrower Signature Prior to Underwriting;
- Appraisal Validity;
- Borrower Eligibility;
- Case number assignments; and
- Mile radius factors to provide clarification on Relocation and Secondary Residence considerations.

Summary Part II

During this module we reviewed:

- Maximum Mortgage Amounts;
- Where to Submit a Request to Change Mortgage Limits;
- LTV Limitations Based on the Borrower's Credit Scores;
- Adjusted Value and how to Determine the Subject Property’s Adjusted Value; and
- Clarification of LTV Exception Policy for Non-Occupying Borrower Transactions.

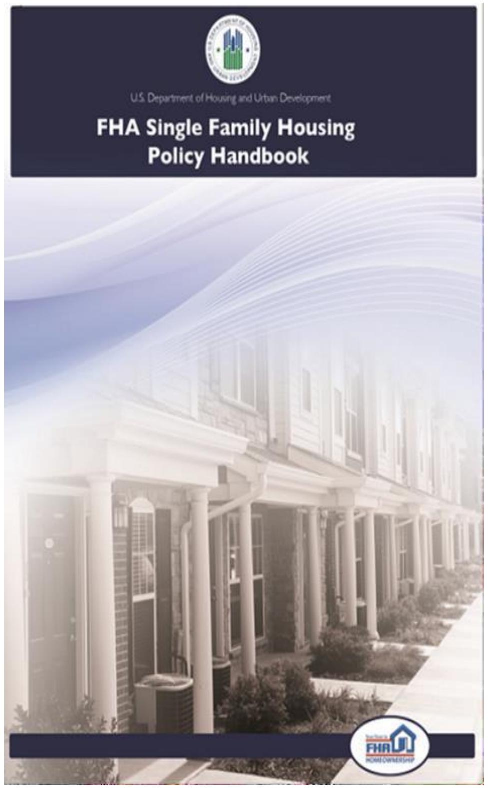
Helpful Links

FAQ Site:
http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ

FHA Webinar Archive:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/events/sfh_webinars

Single Family Lender main page:
www.hud.gov/lenders

Single Family Housing Policy Handbook
4000.1 Training Webcast Series



Thank you for attending.