



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

Module 3: Underwriting the Borrower Using the TOTAL Mortgage Scorecard

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The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgagee Letters in any way.





FHA Single Family Housing Policy Handbook

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Introduction

The Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) section of the SF Handbook provides Mortgagees with FHA's underwriting requirements for using the TOTAL Mortgage Scorecard.





Underwriting with an Automated Underwriting System (AUS)





Retirement of the TOTAL Scorecard User Guide

- **The TOTAL Scorecard User Guide was retired** upon effective date of SF Handbook 4000.1 (*September 14, 2015*).
- Unless otherwise specifically announced, the use and the applicable policies of FHA 's Mortgage Scorecard are contained in, Section 4, *Underwriting the Borrower Using the TOTAL Mortgage Scorecard* in SF Handbook 4000.1.



How Does TOTAL Work?

- TOTAL is based on a mathematical scorecard equation using several credit variables combined with automated underwriting systems (AUS) functionality.
- The scorecard element provides **a risk recommendation.**
- The AUS provides the documentation element.



Automated System Integrity

- The Mortgagee is responsible for the integrity of the data elements entered into the AUS to ensure the valid outcome of the mortgage credit risk evaluation performed by TOTAL.
- The Mortgagee is responsible for having a full understanding on the operating system applications, processes, and procedures it uses to ascertain TOTAL Scorecard risk evaluations.
- TOTAL is a tool and not a substitute for the Mortgagee's reasonable consideration of risk and creditworthiness.



Automated System Functionality

- TOTAL Mortgage Scorecard is available for Mortgagees to use for the purposes of pre-qualifying mortgage loan applicants.
- FHA will not recognize the risk assessment, and loan information will not be transmitted from the TOTAL Mortgage Scorecard to FHA Connection (FHAC) for endorsement processing without an FHA case number.



Automated System Functionality (cont.)

- The Mortgagee must score the mortgage at least once after FHA case number assignment.
- It is imperative that Mortgagees enter the FHA case number into their Loan Origination System or AUS as soon as it is assigned and request a scoring event from TOTAL.



Use of TOTAL Scorecard

- Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the final underwriting decision.
- Mortgagees are expected to exercise both sound judgment and due diligence in the underwriting of a loan to be insured by FHA.



Use of TOTAL Scorecard: Program Scoring Requirements

- All transactions must be scored through the TOTAL Mortgage Scorecard, except:
 - Streamline Refinance transactions;
 - Assumptions; and
 - Home Equity Conversion Mortgages (HECMs).



HUD Employee and TOTAL Scorecard

- If the mortgage involves a HUD employee, the Mortgagee must score the transaction through TOTAL.
- If the file receives an **Accept**, the **Mortgagee** must:
 - Underwrite the transaction in accordance with the guidance in the Underwriting the Borrower Using the TOTAL Mortgage Scorecard section;
 - Submit a conditional loan for HUD underwriting approval; and
 - Submit the underwritten case binder to the Processing and Underwriting Division Director at the jurisdictional HOC for final underwriting approval.





Feedback Certificate/Finding Report

- Each AUS using the TOTAL Mortgage Scorecard provides a Feedback Certificate/Finding Report which documents the results of the credit risk evaluation and identifies the credit report utilized for the scoring event.
- The Feedback Certificate/Finding Report upon which the Mortgagee makes its underwriting decision prior to endorsement must be included in the case binder.



The Mortgagee and TOTAL Mortgage Scorecard

The Mortgagee must:

- Submit data to the TOTAL Mortgage Scorecard through an approved AUS vendor in a data format that is acceptable to the AUS vendor as described in the *TOTAL Mortgage Scorecard Developer's Guide*.





The Mortgagee and TOTAL Mortgage Scorecard (cont.)

The Mortgagee must:

- Ensure full compliance with all FHA eligibility requirements and all requirements of SF Handbook, Section 4, **Underwriting the Borrower Using the TOTAL Mortgage Scorecard.**



The Mortgagee and TOTAL Mortgage Scorecard (cont.)

The Mortgagee must:

- Verify the information used to score the mortgage through TOTAL, but does not need to analyze the credit history unless otherwise stated in SF Handbook, Section 4, **Underwriting the Borrower Using the TOTAL Mortgage Scorecard**, if an Accept or Approve recommendation is received.





The Mortgagee and TOTAL Mortgage Scorecard (cont.)

The Mortgagee must:

- Verify the **integrity of all data elements entered into the AUS** to ensure the outcome of the mortgage credit risk evaluation from the TOTAL Scorecard.





The Mortgagee and TOTAL Mortgage Scorecard (cont.)

The Mortgagee:

- May not accept or deny an FHA-insured mortgage based solely on a risk assessment generated by the TOTAL Mortgage Scorecard.





The Underwriter and TOTAL Mortgage Scorecard

The underwriter must:

- Underwrite all appraisals according to standard FHA requirements.
- Conduct a manual underwrite on mortgage applications where TOTAL issues a Refer.





Automated Underwriting System Data Entry Requirements

The Mortgagee:

- Must verify the integrity of the data elements entered into the AUS to ensure the outcome of the mortgage credit risk evaluation performed by TOTAL is valid.
- These data elements include:
 - Borrower's Credit Report;
 - Borrower's Liabilities/Debt;
 - Borrower's Effective Income;
 - Borrower's Assets/Reserves;
 - Adjusted Value; and
 - Borrower's Total Mortgage Payment.





Automated Underwriting System Data Entry Requirements (cont.)

- The Borrower's total Mortgage Payment includes:
 - Principal, Interest, Taxes, and Insurance (PITI);
 - Mortgage Insurance Premium;
 - HOA or condominium association fees or expenses;
 - Ground Rent and any other special assessments;
 - Payments for any acceptable secondary financing; and
 - Any other escrow payments.
- Where real estate taxes are abated, Mortgagees may use the abated amount if:
 - It can document the abated amount with the taxing authority; and
 - The abatement will remain in place for at least the first three years of the Mortgage.





Automated Underwriting System Data Entry Requirements: Third-Party Originators

- The Mortgagee may permit a sponsored Third-Party Originator (TPO) to enter data into the AUS.
- Both the Mortgagee and its TPO must ensure and verify all data entered into the AUS.
- The **Mortgagee remains ultimately responsible** for ensuring the data entered into the AUS is correct.



New Versions of TOTAL Mortgage Scorecard

- From time to time, FHA will release new versions of the TOTAL Mortgage Scorecard. FHA will announce the date that the new version will be implemented.
- All mortgages being scored for the first time will be scored using the new version. For mortgages with a case number, the mortgages will be scored using the version that was effective when the case number was assigned.
- Existing mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if **none**, then the **current version** will be used).
- All mortgages without a case number will be scored using the new version 90 days after the new version is implemented.





Risk Classification

- If the Feedback Certificate/Finding Report shows an Accept or Approve, it will be referred to as Accept.
- TOTAL issues the risk recommendation, while the AUS issues an Eligible or Ineligible determination.
- The three possible outcomes from TOTAL / AUS are:
 - Accept/Eligible
 - Accept/Ineligible
 - Refer

The Recommendation

Accept or Refer

- Risk Recommendation
- **TOTAL**

Eligible or Ineligible

- Program / Product
- **AUS**

Regardless of the AUS used to request the scoring event, the same risk recommendation will result.



The Recommendation (cont.)

Regardless of the AUS used to request the scoring event, the same risk recommendation will result:

Certain changes can result in a different Risk Recommendation from TOTAL, these include:

- Data integrity; and
- Operating systems applications.
 - LOS
 - AUS



Recommendation: Accept/Eligible

- If the Feedback Certificate/Finding Report shows an Accept/Eligible recommendation, the mortgage may be eligible for FHA's insurance endorsement provided the Mortgagee verified that:
 - Data entered into the AUS is accurate;
 - All supporting documentation is consistent with the scoring event data elements; and
 - The entire mortgage application complies with all FHA requirements.





Recommendation: Accept/Ineligible

- If the Feedback Certificate/Finding Report shows an Accept/Ineligible recommendation, the Borrower's credit and capacity would meet the threshold for approval, but the mortgage does not fully comply with FHA's eligibility requirements.
- The Mortgagee must analyze the Feedback Certificate and determine if the reason for the ineligibility is one that can be resolved in a manner that complies with FHA underwriting requirements.





Recommendation: Accept/Ineligible

- If the Mortgagee can correct the reason for ineligibility, **the Mortgagee may rescore the mortgage in the AUS.**
- When the reason for ineligibility cannot be corrected in the AUS, the Mortgagee:
 - May underwrite the mortgage using the following requirements for an Accept mortgage; **and**
 - Must resolve the reason for ineligibility in accordance with FHA requirements and must provide an explanation of the resolution in the remarks section of form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.





Recommendation: Accept/Ineligible (cont.)

Typical reasons for an Accept/Ineligible recommendation may include, but are not limited, to:

- Loan amount that exceeds the FHA Statutory Loan Limits;
- Property type submitted does not correspond to the Section of the Act selected in the AUS;
- Insufficient reserves on a 3- or 4-unit property; and
- Insufficient funds for closing.





Recommendation: Refer

The underwriter must **manually underwrite** any mortgage application for which:

- The Feedback Certificate shows a **Refer** recommendation;
- Any result other than those described in SF Handbook, Section 4, Underwriting the Borrower Using the TOTAL Mortgage Scorecard; **or**
- An **Accept** risk classification was manually downgraded.





Accept Risk Classifications Requiring a Downgrade to Manual Underwriting



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

- Loans with certain characteristics or risk elements require further analysis regardless of the TOTAL Scorecard results.
- SF Handbook outlines ten reasons to downgrade and manually underwrite a mortgage with an Accept risk classification.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The mortgage file contains information or documentation that **cannot be entered into or evaluated by the TOTAL Mortgage Scorecard.**



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- Additional information, **not considered in the AUS** recommendation, **effects the overall insurability** of the mortgage.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The Borrower has **\$1,000 or more collectively in Disputed Derogatory Credit** accounts.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The date of the Borrower's bankruptcy discharge as reflected on **bankruptcy documents** is within two years from the **date of case number assignment**.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The **case number assignment date** is within three years of the date of the transfer of title through a foreclosure sale.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The **case number assignment date** is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage that **receives an Accept** recommendation if:

- The Mortgage Payment history requires a downgrade as defined in **Housing Obligations/Mortgage Payment history**.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

- Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.
- Standards to determine if a mortgage needs to be downgraded and manually underwritten are included in the following two transaction-type categories:
 - Purchase and No Cash-Out Refinance
 - Cash-Out Refinance Transactions



Mortgage Payment Downgrade: Obligations/ Mortgage Payment History Purchase and No Cash- Out Refinance Transactions

Purchase and No Cash-Out Refinance Transactions

Downgraded to a **Refer** if any mortgage trade line reflects:

Most recent 12 months

$\geq 3 \times 30$

Three or more late payments of greater than 30 Days

$\geq 1 \times 60 + \geq 1 \times 30$

One or more late payments of 60 Days plus one or more 30-Day late payments.

$\geq 1 \times 90$

One payment greater than 90 Days late.

* A Mortgage Payment is considered delinquent if not paid within the month due.

** Modified Mortgage utilizes the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.





Mortgage Payment Downgrade: Obligations/ Mortgage Payment History Purchase and No Cash- Out Refinance Transactions (cont.)

Cash-Out Refinance Transactions

Downgraded to a **Refer** if any mortgage trade line reflects:

- Any delinquency within 12 months of the case assignment date; or
- A current delinquency.

*A Mortgage Payment is considered delinquent if not paid within the month due.

**Modified Mortgage utilizes the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.





Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

The Mortgagee **must downgrade** and manually underwrite any mortgage application that **receives an Accept** recommendation if:

- The Borrower has an **undisclosed mortgage debt**.



Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee **must downgrade** and manually underwrite any mortgage application that **receives an Accept** recommendation if:

- Business income shows a greater than 20 percent decline over the analysis period.



Borrower Eligibility Requirements and Underwriting the Borrower Using the TOTAL Mortgage Scorecard

In the Origination/Processing section, under General Mortgage Insurance Eligibility, the HUD Handbook 4000.1 addresses Borrower Eligibility policies concerning:

- Delinquent Federal Debt and Delinquent Federal Non-Tax Debt;
- Credit Alert Verification Reporting System (CAIVRS); and
- Suspended and Debarred Individuals (Excluded Parties).



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

Is not reported on CAIVRS



Delinquency must be resolved (paid satisfied or payment arrangement)



Applicability of Automated Underwriting System Rules

If the mortgage application must be manually downgraded, the Mortgagee must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded mortgage.

Case Study: Downgrade

Credit Report		
Mortgage	12 months	1 x 30, 1 x 60
Revolving	12months	0 x 30
Car Loan	12 months	0 x 30
Delinquent Federal Student Loan: CAIVRS		\$7,500

- Borrower has applied for FHA purchase loan.
- Borrower has an established credit history.
- Reflected is the borrower's last 12 months.

An "Accept" risk classification was received.
Should a downgrade to a manual underwrite be issued?

Case Study: Downgrade (cont.)

Credit Report		
Mortgage	12 months	1 x 30, 1 x 60 / One or more late payments of 60 plus one or more 30 day
Revolving	12months	0 x 30
Car Loan	12 months	0 x 30
Delinquent Federal Student Loan: CAIVRS		\$7,500 / Not a Downgrade but, Borrower Eligibility

- Borrower has applied for FHA purchase transaction.
- Borrower has an established credit history.
- Reflected is the borrower's last 12 months.

An "Accept" risk classification was received.

Should a downgrade to a manual underwrite be issued? **YES**



Rescoring Requirements

The Mortgagee must rescore a mortgage when:

- Any data element of the mortgage changes; and/or
- New Borrower information becomes available.





Tolerance Levels

The Mortgagee is not required to rescore a mortgage if the following data elements change from the last scoring event within the described tolerance levels:

When assessing...	Rescore is not required if:
Cash Reserves	Cash Reserves verified are not less than 10% below the previously scored amount.
Income	Income verified is not less than 5% below the previously scored amount.
Tax and Insurance Escrow	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income ratio (PTI).





Case Study: Tolerance Levels

Original Scoring Event	
Principal & Interest	\$1,000
Taxes	200
Insurance	40
HOA	25
Debts	500
TOTAL PTI	\$1,265 / 30%
TOTAL Fixed Payment	\$1,765 / 42%

Changes:	
Principal & Interest	\$1,000
Taxes	208
Insurance	65
HOA	77
Debts	500
TOTAL PTI	\$1,350 / 32%
TOTAL Fixed Payment	\$1,850/ 44%

Borrower's Effective Monthly Income \$4,250

Is this case required to be rescored through TOTAL?





Case Study: Tolerance Levels (cont.)

Original Scoring Event	
Principal & Interest	\$1,000
Taxes	200
Insurance	40
HOA	25
Debts	500
TOTAL PTI	\$1,265 / 30%
TOTAL Fixed Payment	\$1,765 / 42%

Changes:	
Principal & Interest	\$1,000
Taxes	208 
Insurance	65
HOA	77
Debts	500 
TOTAL PTI	\$1,350 / 32%
TOTAL Fixed Payment	\$1,850 / 44%

Borrower's Effective Monthly Income \$4250

Is this case required to be rescored through TOTAL? **NO**





Credit Report Requirements

- The Mortgagee must obtain a traditional credit report with information from at least two credit repositories for each Borrower who will be obligated on the Mortgage Note.
- If a traditional credit report is not available or the traditional credit report is insufficient, the Feedback Certificate will show a Refer recommendation, and the Mortgagee must manually underwrite the Mortgage.
- A joint report may be obtained for individuals with joint accounts.



Credit Report Requirements (cont.)

In general, the credit report must:

- Be in an easy-to-read and understandable format;
- Not require code translations;
- Not contain whiteouts, erasures, or alterations;
- Include the mortgagee's, borrower's, and consumer-reporting agency information as prescribed in the SF Handbook;
- List all inquiries made within the last 90 Days; and
- Include all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), for the last seven years.





Non-Borrowing Spouse Community Property State: Consent and Authorization

The Mortgagee must obtain a Non-Borrowing Spouse's consent and authorization where necessary to:

- Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).



Credit Report: Non-Borrowing Spouse

- The Mortgagee must obtain a credit report for a Non-Borrowing Spouse who resides in a community property state, or if the subject property is located in a community property state.
- The credit report must indicate the Non-Borrowing Spouse's SSN was matched with the SSA, or the Mortgagee must provide separate documentation indicating that the SSN was matched with the SSA.



Credit Report: Non-Borrowing Spouse (cont.)

- Where a SSN does not exist for a Non-Borrowing Spouse, the credit report must contain, at a minimum, the Non-Borrowing Spouse's full name, date of birth, and previous addresses for the last two years.
- The Mortgagee does not submit the Non-Borrowing Spouse credit report as part of the TOTAL scorecard risk evaluation.



Inconsistencies: Credit Report and Mortgage File

- The Mortgagee must obtain a new credit report and rescore the mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.



Evaluating Credit History: TOTAL





Collection Accounts; Charge Off Accounts; Accounts with Late Payments in the Previous 24 Months; and Judgments

- An explanation of collection accounts; charge off accounts; accounts with late payments; Judgments; or other derogatory information within the last 24 months is not required.



Disputed Derogatory Credit Accounts

- **Disputed Derogatory Credit Accounts** refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.



Disputed Derogatory Credit Accounts: Exclusions

The following accounts can be excluded from consideration in the underwriting analysis:

- Medical accounts; and
- Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use;
 - To exclude these balances, the Mortgagee must include a copy of the police report or other documentation from the creditor to support the status of the accounts.



Disputed Derogatory Credit Accounts: Applicability

- If the credit report utilized by the TOTAL Mortgage Scorecard indicates that the Borrower has **\$1,000 or more collectively** in Disputed Derogatory Credit Accounts, then the mortgage must be downgraded to a **Refer and manually underwritten**.
- Disputed Derogatory Credit Accounts of a Non-Borrowing Spouse in a community property state **are not** included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.



Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report

Non-Derogatory Disputed Accounts include the following types of accounts:

- Disputed accounts with zero balance;
- Disputed accounts with late payments aged 24 months or greater;
and
- Disputed accounts that are current and paid as agreed.

Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.





Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (cont.)

For Non-Derogatory Disputed Accounts the Mortgagee:

- Is not required to downgrade the application to a Refer;
- Must analyze the effect of the disputed accounts on the Borrower's ability to repay the mortgage; and
- Must provide acceptable documentation from the borrower if the the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report.





Judgments

- **Judgment** refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.
- The Mortgagee must verify that court-ordered Judgments are resolved or paid off prior to or at closing.



Judgments: Exception Policy Clarification

Exception:

- A Judgment is considered resolved if:
 - The Borrower has entered into a valid agreement with the creditor to make regular payments on the debt;
 - The Borrower has made timely payments for at least three months of scheduled payments; and
 - The Judgment will not supersede the FHA-insured mortgage lien.
- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

Note: All judgment liens must be subordinated.





Judgments: Payment Agreement

The Mortgagee must:

- Include the payment amount in the agreement in the Borrower's monthly liabilities and debt;
- Obtain a copy of the agreement;
- Evidence for at least three months that payments were made on time in accordance with the agreement; and
- Include the subordination agreement for any liens existing on title.



Inaccuracy in Debt Considered

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was **not considered by the AUS**, the Mortgagee must:

- **Verify** the actual monthly payment amount;
- **Re-submit** the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt **increases by more than \$100 per month; and**
- **Determine that the additional debt was not/will not** be used for the Borrower's Minimum Required Investment (MRI).





Bankruptcy: Discharge Period

- The Mortgagee must document the passage of two years since the discharge date of any bankruptcy.
- If the bankruptcy was discharged within two years from the date of case number assignment, the mortgage must be downgraded to a Refer and manually underwritten.



Pre-Foreclosure Sales (Short Sales)

Definition:

- **Short Sale**: Refers to any sale of real estate that generates proceeds that are less than the amount owed on the property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.



Short Sale: Period

- The Mortgagee must document the passage of three years since the date of the short sale. If the short sale occurred within three years of the case number assignment date, the mortgage must be downgraded to a Refer and manually underwritten.
- If the credit report does not verify the date of the transfer of title by short sale, the Mortgagee must obtain the short sale documents. A Borrower is generally not eligible for a new FHA-insured mortgage if they relinquished a property through a short sale within three years from the date of case number assignment.
- This three-year period begins on the date of transfer of title by short sale.





Foreclosure

- The Mortgagee must manually downgrade to a Refer if the Borrower had a foreclosure in which title transferred from the Borrower within three years of case number assignment.
- If the credit report does not verify the date of the transfer of title through the foreclosure, the Mortgagee must obtain the foreclosure documents.



Deed-in-Lieu (DIL) of Foreclosure

- The Mortgagee must manually downgrade to a Refer if the Borrower had a DIL of foreclosure in which title transferred from the Borrower within three years of case number assignment.
- If the credit report does not verify the date of the transfer of title by DIL of foreclosure, the Mortgagee must obtain a copy of the DIL of foreclosure.



Credit Counseling/Payment Plan

- Participating in a consumer credit counseling program does not require a downgrade to manual underwriting.
- No explanation or other documentation is needed.



Housing Obligation/Mortgage Payment History

- A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.
- A Mortgage Payment is considered delinquent if **not paid within the month due**.
- A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.



Mortgage Payment Downgrade: Obligations/ Mortgage Payment History Purchase and No Cash-Out Refinance Transactions

Purchase and No Cash-Out Refinance Transactions

Downgraded to a Refer if any mortgage trade line reflects:

Most recent 12
months

$\geq 3 \times 30$

Three or more late payments of greater than 30 Days

$\geq 1 \times 60 + \geq 1 \times 30$

One or more late payments of 60 Days plus one or more 30 Day late payments.

$\geq 1 \times 90$

One payment greater than 90 Days late.

* A Mortgage Payment is considered delinquent if not paid within the month due.

** Modified Mortgage utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.





Mortgage Payment Downgrade: Obligations/ Mortgage Payment History Cash-Out Refinance Transactions

Cash-Out Refinance Transactions

Downgraded to a Refer if any mortgage trade line reflects:

- Any delinquency within 12 months of the case assignment date; and/or
- A current delinquency.

*A Mortgage Payment is considered delinquent if not paid within the month due.

**Modified Mortgage utilizes the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.





Timeshare: Evaluation of Payment History

If a loan is secured by a Timeshare and the trade line is identified as:

- A mortgage for a TOTAL underwrite, the trade line must be evaluated as a mortgage; or
- An installment debt for a TOTAL underwrite, the trade line is evaluated as an installment debt.



Evaluating Liabilities and Debts



Inquiries

- The Mortgagee must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios.
- The Mortgagee must also determine that any recent debts were not incurred to obtain any part of the Borrower's required funds to close on the property being purchased.
- **Material Inquiries** refer to inquiries that may potentially result in obligations incurred by the Borrower for other mortgages, auto loans, leases, or other Installment Loans.
- Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.





Closed-end Debts Paid Off Within 10 Months

- Closed-end debts do not have to be included if:
 - They will be paid off within 10 months; and
 - The cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income.
- The Borrower may not pay down the balance in order to meet the 10-month requirement.



Authorized User Accounts

- Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can obtain documentation to evidence:
 - That the primary account holder has made all the required payments on the account for the previous 12 months.
- If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.



Undisclosed Debt Other Than a Mortgage

- When a debt or obligation (other than a mortgage), that is not listed on the mortgage application and/or credit report, and not considered by the AUS, is revealed during the application process, the Mortgagee must:
 - Verify the actual monthly payment amount;
 - Re-submit the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; **and**
 - Determine that any funds borrowed were not/will not be used for the Borrower's Minimum Required Investment (MRI).





Undisclosed Mortgage

- When a debt or obligation that is secured by a mortgage not listed on the mortgage application and/or credit report, and not considered by the AUS, is revealed during the application process, the Mortgagee must downgrade to a Refer and manually underwrite the mortgage.



Alimony, Child Support, or Other Maintenance

- For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Mortgagee's calculation of the Borrower's gross income, the Mortgagee must verify and include the monthly obligation in its calculation of the Borrower's debt.
- Child support and other maintenance are to be treated as a recurring liability, and the Mortgagee must include the monthly obligation in the Borrower's liabilities and debt.
- The Mortgagee must calculate the Borrower's monthly obligation from the greater of:
 - The amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
 - The monthly amount of the garnishment.





Alimony, Child Support, or Other Maintenance (cont.)

- The Mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.
- The Mortgagee must also obtain the Borrower's pay stubs covering no less than **28 consecutive Days** to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.
- The Mortgagee must calculate the Borrower's monthly obligation from the greater of:
 - The amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
 - The monthly amount of the garnishment.





Deferred Obligations

- **Deferred Obligations (excluding Student Loans)** refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts **in forbearance**.
- The Mortgagee must verify and include deferred obligations in the calculation of the Borrower's debt.



Deferred Obligations: Required Documentation

The Mortgagee must obtain:

- Written documentation of the deferral of the liability from the creditor, and evidence of the outstanding balance and terms of the deferred liability.
- Evidence of the anticipated monthly payment obligation, if available.





Deferred Obligations: Calculation of Monthly Obligation

- Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.
- If the actual monthly payment is not available for installment debt, the Mortgagee must utilize:
 - The terms of the debt; or
 - 5 percent of the outstanding balance to establish the monthly payment.



Installment Loans

- **Installment Loans** (excluding Student Loans) refer to loans not secured by real estate, that require the periodic payment of principal and interest.
- The Mortgagee must include the monthly payment shown on the credit report, loan agreement, or payment statement to calculate the Borrower's debts.



Installment Loan Monthly Payment Clarification

- If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into the TOTAL Mortgage Scorecard.
- If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.
- If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.





Student Loans

- **Student Loan** refers to liabilities incurred for educational purposes.
- The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.



Student Loans: Required Documentation

- If the payment used for the monthly obligation is:
 - Less than 1 percent of the outstanding balance reported on the Borrower's credit report; **and**
 - Less than the monthly payment reported on the Borrower's credit report; then
- The Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.



Student Loans: Calculation of Monthly Obligation

Regardless of the payment status, the Mortgagee must use either:

- The greater of:
 - 1 percent of the outstanding balance on the loan; or
 - The monthly payment reported on the Borrower's credit report; or
- The actual documented payment, provided the payment will fully amortize the loan over its term.



Case Study: Student Loans 1

Student Loan Information **Reported on the Credit Report**

Student Loan balance: \$20,000

Student Loan payment: \$0

Payment status: Repayment

1. What is the Student Loan payment that must be used in the qualifying ratios?
2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?



Case Study: Student Loans 1

What is the Student Loan payment that will be used in the qualifying ratios?

Regardless of the payment status, the Mortgagee must use either:

- The greater of:
 - 1 percent of student loan balance: **\$200** ($\$20,000 \times 1\%$)
 - Monthly payment reported on the Borrower's credit report: **\$0**
- The actual documented payment, provided the payment will fully amortize the loan over its term. **Loan not being amortized.**

Student Loan payment is: \$200 month





Case Study: Student Loans 1

2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?

- **No.** The Mortgagee is using 1 percent of the outstanding balance reported on the Borrower's credit report to calculate the Student Loan payment for qualification purposes.



Case Study: Student Loans 2

Student Loan Information Reported on the Credit Report

Student Loan balance: \$20,000

Student Loan payment: \$222

Payment status: Deferred

1. What is the Student Loan payment that must be used in the qualifying ratios?
2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?



Case Study: Student Loans 2

1. What is the Student Loan payment that will be used in the qualifying ratios?

Regardless of the payment status, the Mortgagee must use either:

- The **greater** of:
 - 1 percent of student loan balance: **\$200** ($\$20,000 \times 1\%$)
 - Monthly payment on the Borrower's credit report: **\$222**
- The actual documented payment, provided the payment will fully amortize the loan over its term.

Student loan payment: \$222 month, even if the loan is deferred.





Case Study: Student Loans 2

2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?

- **No**, because both:
 - The monthly payment reported on the Borrower's credit report is more than 1 percent of the outstanding Student Loan balance; and
 - The monthly payment used for the qualifying ratios is the actual monthly payment reported on the credit report, not less.



Case Study: Student Loans 3

Student Loan Information **Reported on the Credit Report**

Student Loan balance: \$20,000

Student Loan payment: \$152

Payment status: Repayment

1. What is the Student Loan payment that must be used in the qualifying ratios?
2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?



Case Study: Student Loans 3

1. What is the Student Loan payment that will be used in the qualifying ratios?

Regardless of the payment status, the Mortgagee must use **either**:

- The **greater** of:
 - 1 percent of Student Loan balance: **\$200** (\$20,000 x 1%); or
 - Monthly payment on the Borrower's credit report: **\$152 or**
- The actual documented payment, provided the payment will fully amortize the loan over its term **\$152**

Student Loan payment: \$152 month, only if the Mortgagee obtains the appropriate documentation.





Case Study: Student Loans 3

2. Does the Mortgagee have to obtain written documentation of the Borrower's Student Loan from the creditor?

- **Yes if the \$152 payment is used to qualify.** That is because the student loan monthly payment the Mortgagee will use in the qualifying ratios is less than the greater of:
 - 1 percent of the outstanding student loan balance; or
 - The actual monthly payment reported on the credit report.

Note: The Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.





Revolving Charge Accounts: Documentation

- The Mortgagee must use the credit report to document the terms, balance, and payment amount on the account, if available.
- Where the credit report does not reflect the necessary information on the charge account, the Mortgagee must:
 - Obtain a copy of the most recent charge account statement; or
 - Use **5 percent** of the outstanding balance to document the monthly payment.



30-Day Accounts

- 30-Day Accounts refer to credit arrangements that requires the Borrower to pay off the outstanding balance on the account every month.
- The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months.



30-Day Accounts (cont.)

- 30-Day Accounts that are paid monthly on time for the past 12 months are not included in the Borrower's DTI.
- If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.



Contingent Liabilities

- **A contingent liability** refers to a liability that may result in the obligation to repay only when a specific event occurs.
- For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment.
- Contingent liabilities may include cosigner liabilities and liabilities resulting from a Mortgage assumption without release of liability.



Contingent Liabilities (cont.)

- The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations **unless** the Mortgagee verifies and documents that there is **no possibility** that the **debt holder will pursue debt collection against the Borrower** should the other party default or the other legally obligated party **has made 12 months of timely payments**.
- The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.



Contingent Liabilities: Mortgage Assumptions

- The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

Note: *The Mortgagee verifies and must document that there is **no possibility** that the **debt holder will pursue debt collection against the Borrower** should the other party default.*



Contingent Liabilities: Cosigned Liabilities/ Divorce Decree

- If the cosigned liability is **not included** in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.
- The Mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.



Collection Accounts

- A **Collection Account** refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.
- Medical collections, are not required to be paid, satisfied, or considered in the Borrower's qualifying ratios.
- Collection accounts of a Non-Borrowing Spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless specifically excluded by state law.



Collection Accounts (cont.)

If the credit reports used in the analysis show a **cumulative outstanding collection account balance of \$2,000 or greater**, the Mortgagee must:

- Verify that the debt is paid in full at the time of, or prior to, settlement using an acceptable source of funds;
- Verify that the Borrower has made payment arrangements with the creditor, and include the monthly payment in the Borrower's DIT ratio; **or**
- If a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.





Collection Accounts (cont.): Documentation

- The Mortgagee must provide the following documentation:
 - Evidence of payment in full, if paid prior to settlement; or
 - The payoff statement, if paid at settlement; or
 - The payment arrangement with the creditor, if not paid prior to or at settlement.
- If the collection account is to be paid off, the Mortgagee must document that the funds being used for the pay-off come from an acceptable source.
- If the Mortgagee uses **5 percent** of the outstanding balance, no documentation is required.





Charge Off Accounts

- A **Charge off account** refers to a Borrower's loan or debt that has been written off by the creditor.
- Charge Off accounts **do not** need to be included in the Borrower's liabilities or debt.



Private Savings Clubs

- **A Private Savings Club** refers to a non-traditional method of saving by making deposits into a member-managed resource pool.
- If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, **this obligation must be counted in the Borrower's total debt.**
- The Mortgagee must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.
- The Mortgagee must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.





Private Savings Clubs (cont.)

- Under this situation, if the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, **this obligation must be counted in the Borrower's total debt.**
- **How would the Mortgagee identify this account?**



Private Savings Clubs (cont.)

How would the Mortgagee identify this account?

The Mortgagee needs to identify the monthly obligation as a monthly liability in the Borrower's DTI and verify that the AUS has identified this account in its transmission to TOTAL.



Business Debt in Borrower's Name

- When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the debt must be included in the debt-to-income calculation unless the Mortgagee obtains documentation to evidence the following:
 - The company has been making regular on-time payments during the previous **12 months without delinquency**;
 - The debt is paid out of company funds; **and**
 - The debt was considered in the cash-flow analysis of the Borrower's business.



Business Debt Considered in Cash Flow Analysis

- When the personal Borrower's debt is being paid by the Borrower's business, the debt is considered:
 - In the cash flow analysis; and
 - The Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds.
- The Borrower's business tax returns may show an interest expense related to the obligation, **only the interest portion of the debt can be considered in the cash flow analysis.**



Negative Income

- Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.



Source of Funds for Debts Paid Prior to Closing

- The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.



Obligations Not Considered Debt

- Medical collections;
- Federal, state, and local taxes, if not delinquent and no payments are required;
- Automatic deductions from savings, when not associated with another type of obligation;
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts ;
- Collateralized loans secured by depository accounts;
- Utilities;
- Child care;
- Commuting costs;
- Union dues;
- Insurance, other than property insurance;
- Open accounts with zero balances; and
- Voluntary deductions, when not associated with another type of obligation





Income Requirements





Feedback Certification: General Income Requirements

- The Mortgagee must review the Feedback Certificate for accuracy and validate the data provided for TOTAL's risk evaluation.



Feedback Certification: General Income Requirements (cont.)

The Mortgagee must:

- Document the Borrower's income;
- Document employment history;
- Verify the accuracy of the amounts of income being reported;
- and**
- Determine if the income can be considered as Effective Income.



General Income Requirements

- **Effective Income** refers to income that may be used to qualify a Borrower for a mortgage.
- **Effective Income** must:
 - Be likely to continue through at least the first three years of the mortgage;
 - Be documentable;
 - Be legally derived; and
 - Be reported to the IRS when required.
- Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.





Employment Related Income

- **Employment Related Income** refers to income received as an employee of a business that is reported on IRS Form W-2.
- The Mortgagee may use Employment-related Income as Effective Income in accordance with the standards provided for each type of Employment Related Income.



Employment Related Income (cont.)

- For all Employment Related Income, the Mortgagee must verify the Borrower's most recent two years of employment and income, and document using one of the following methods:
 - Traditional Current Employment Documentation; or
 - Alternative Current Employment Documentation.



Traditional Current Employment Documentation

- To verify the Borrowers current employment, the Mortgagee must obtain:
 - The most recent pay stub; **and**
 - A written Verification of Employment (VOE) or an electronic verification acceptable to FHA covering the most recent two years.



Alternative Current Employment Documentation

- To verify the Borrower's **current employment**, the Mortgagee must obtain:
 - Copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
 - Copies of the original IRS W-2 forms from the previous two years; **and a**
 - Telephone employment certification
 - Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.



Re-verification of Employment

- Re-verification of employment must be completed within 10 Days prior to the date of the Note.
- Verbal re-verification of employment is acceptable.



Past Employment Documentation: Current Employment for Two Years

- Direct verification of the Borrower's employment history for the previous two years is not required if **all** of the following conditions are met:
 - The current employer confirms a two-year employment history, or a paystub reflects a hiring date of a minimum of two years;
 - Only **base pay** is used to qualify (no Overtime and Bonus Income); **and**
 - The Borrower executes IRS Form 4506, *Request for Copy of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two tax years.



Past Employment Documentation: Current Employment Less Than Two Years (cont.)

- If the Borrower has not been employed with the same employer for the previous two years and/or not all conditions previously discussed are not able to be met (**Counting Overtime/Bonus**), then the Mortgagee must obtain **one or a combination** of the following for the **most recent two years** to verify the applicant's employment history:
 - W-2(s);
 - VOE(s);
 - Electronic verification acceptable to FHA; and
 - Evidence supporting enrollment in school or the military during the most recent two full years.



Primary Employment

- Primary Employment is the Borrower's principal employment. Primary Employment is generally full-time employment.
- The Mortgagee may use Primary Employment income as Effective Income.



Calculation of Effective Income: Salary

- **Salary** refers to income that has been and will likely be consistently earned.
- The Mortgagee must use the current salary to calculate the Effective income.



Calculation of Effective Income: Hourly

- **For Hourly wage earners whose:**
 - **Hours do not vary**, the Mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.
 - **Hours vary**, the Mortgagee must average the income over the previous two years.
- If the Mortgagee can **document an increase in pay rate**, the Mortgagee may use the most recent 12-month average of hours at the current pay rate.



Overtime and Bonus Income

- **Overtime and Bonus Income** refers to income that the Borrower receives in addition to the Borrower's normal salary.
- The Mortgagee may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.
- Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.



Overtime and Bonus Income: Calculation

Calculation:

- The Mortgagee must average the Overtime or Bonus Income over the previous two years.
- However, if the Overtime and Bonus Income from the current year **decreases by 20% or more** from the previous year, the Mortgagee must use the current year's income.



Seasonal Employment

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



Seasonal Employment

- The Mortgagee may consider Seasonal Employment income as Effective Income if the Borrower:
 - Has worked the same line of work for the past two years;
and
 - Is reasonably likely to be rehired for the next season.
- The Mortgagee may consider unemployment income as Effective Income for those with effective Seasonal Employment income.





Seasonal Employment

Calculation of Effective Income:

- For employees with Seasonal Employment income, the Mortgagee must average the income earned over the previous two full years to calculate Effective Income.
- For seasonal employees with unemployment income, the Mortgagee must document the **unemployment income for two full years**, and there must be reasonable assurance that this income will continue.



Employed by Family-Owned Business

- The Mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.
- The Mortgagee must verify and document that the **Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.**



Employed by Family-Owned Business (cont.)

- Official business documents include:
 - Corporate resolutions or other business organizational documents;
 - Business tax returns or Schedule K-1(IRS Form 1065), *U.S. Return of Partnership Income*; **or**
 - An official letter from a Certified Public Accountant on their business letterhead.
- In addition to traditional or alternative documentation requirements, the Mortgagee must obtain copies of signed personal tax returns or tax transcripts.



Commission Income

- **Commission Income** refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.
- The Mortgagee may use Commission Income as Effective Income if:
 - The Borrower earned the **income for at least one year in the same or similar line of work**; and
 - It is reasonably likely to continue.



Commission Income: Documentation

- **For Commission Income less than or equal to 25%** of the Borrower's total earnings, the Mortgagee must use traditional or alternative employment documentation.
- **Commission Income greater than 25%** of the Borrower's total earnings, the Mortgagee must obtain signed tax returns, including all application schedules, for the last two years.
- In lieu of signed tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.



Self-Employment Income

- **Self-Employment Income** refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.
- The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed **for at least two years**.
- If the Borrower has been self-employed between **one and two years**, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.





Self-Employment Income: Stability

- Income obtained from businesses with **annual earnings that are stable or increasing is acceptable.**
- If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade the transaction to a Refer and manually underwrite the transaction.



Self-Employment Income: Documentation

- **Individual and business tax returns**
 - The Mortgagee must obtain complete individual and business federal income tax returns for the most recent two years, including all schedules.
 - **In lieu of signed individual or business tax returns from the Borrower**, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.





Self-Employment Income-Documentation (cont.)

- The Mortgagee must obtain the Borrower's business tax returns for the most recent two years **unless** the following criteria are met:
 - Individual federal income tax returns show **increasing** Self-Employment Income over the past two years;
 - **Funds to close** are not coming from **business accounts**; and
 - The mortgage to be insured is **not a cash-out refinance**.



Self-Employment Income: Documentation (cont.)

- The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if:
 - More than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower.
- A balance sheet is **not required** for self-employed Borrowers filing Schedule C income.
- If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L Statement or signed quarterly tax return must be obtained from the IRS.





Self-Employment Income: Calculation

- The Mortgagee must calculate gross Self-Employment Income by using the lesser of:
 - The average gross Self-Employment Income earned over the previous two years; or
 - The average gross Self-Employment Income earned over the previous one year.



Frequent Changes in Employment

- If the Borrower has changed jobs more than **three times** in the **previous 12-month** period, or has changed lines of work, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income.
- The Mortgagee must obtain:
 - Transcripts of training and education demonstrating qualification for a new position; **or**
 - Employment documentation evidencing continual increases in income and/or benefits.
- Does not apply for fields of employment that regularly require a Borrower to work for various employers (i.e. Temp Companies or Union Trades).





Gaps in Employment

- For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:
 - The Borrower has been employed in the current job for at least six months at the time of case number assignment; **and**
 - There is a two year work history prior to the absence from employment using standard or alternative employment verification.





Temporary Reduction in Income

- For Borrowers with a temporary reduction in income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:
 - The Borrower **intends** to return to work;
 - The Borrower **has the right** to return to work; and
 - The Borrower **qualifies** for the mortgage, taking into account any **reduction of income** due to the circumstance.



Temporary Reduction in Income: Calculation

- For Borrowers returning to work before or at the time of the first Mortgage Payment due date:
- The Mortgagee may use the Borrower's pre-leave income.



Temporary Reduction in Income: Calculation (cont.)

For Borrowers returning to work *after* the first Mortgage Payment due date:

- The Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income.
- The amount of the monthly income supplement is:
 - The total amount of **surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.**
- **Surplus Liquid Asset Reserves** refers to Liquid asset reserves above and beyond the program requirements.





Temporary Reduction in Income: Documentation

The Mortgagee must provide the following **documentation** for Borrowers on temporary leave:

- A written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- Documentation generated by the current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- Documentation of sufficient liquid assets to be used to **supplement the Borrower's income** through the intended return date to work after the first due date of the mortgage payment.



Case Study: Maternity Leave

Lisa and Jim Smith have applied for a FHA purchase 203(b) mortgage. At the time of underwriting, Ms. Smith is on Maternity leave from her position. The following information is in the case file:

- A written statement from Ms. Smith verifying her intentions to return to her full-time position.
- A Verification of Employment from Ms. Smith's employer stating:
 - Ms. Smith is on temporary leave without pay.
 - Ms. Smith's position is being retained for her.
 - Upon her return she will be paid at the same salary rate of \$28,000/year.
 - Ms. Smith has held her salaried position for the last 12 years.
- It is Ms. Smith's intent to be returning back to work one month after the due date of the first mortgage payment.
- The Smith's total surplus liquid asset Reserves are \$1,100.





Case Study: Maternity Leave

What is Ms. Smith's Effective Income?

- It is Ms. Smith's intent to be returning back to work one month after the due date of the first mortgage payment.
- The Smith's total surplus liquid asset Reserves are \$1,100.

Ms. Smith's Effective Income is \$1,100.

Ms. Smith currently is not making any income. The only Effective Income source is the surplus liquid asset Reserves.

- The Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income.





Disability Benefits

- Disability benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.
- To calculate disability income, the Mortgagee must use the most recent benefit amount as Effective Income.
- The Mortgagee must never inquire into nor request documentation concerning the nature of the disability or the medical condition of the Borrower.





Disability Benefits: Required Documentation

- The Mortgagee must verify and document the award amount and receipt of benefits from the provider.
- If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.
- If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.





Disability Benefits: Additional Documentation

Depending on the type of disability benefits being received, additional documentation requirements may include:

- Federal Tax Returns;
- Most recent bank statement evidencing receipt of income from the SSA;
- Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” or
- Copy of the Borrower’s form SSA-1099/1042S, *Social Security Benefit Statement*.





Alimony, Child Support, or Maintenance Income

- **Alimony, Child Support, or Maintenance Income** refers to income received from a former spouse or partner, or from a non-custodial parent of the Borrower's minor dependent.
- The Mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.



Alimony, Child Support, or Maintenance Income (cont.)

- The Mortgagee must provide evidence that the claimed income will continue for at least three years.
- The Mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.



Alimony, Child Support or Maintenance Income: Legal Record Documentation

- When using a final divorce decree, legal separation agreement, or court order, the Mortgagee must obtain evidence of receipt using the following documentation for the **most recent three months** that supports the amount used in qualifying:
 - Deposits recorded on bank statements;
 - Canceled checks; or
 - Documentation from the child support agency.
- If the Borrower has received **consistent** Alimony, Child Support or Other Maintenance payments for the **most recent three months**, the Mortgagee may use the **current payment to calculate Effective Income**.





Alimony, Child Support, or Maintenance Income: Voluntary – Effective Income

- When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support or other Maintenance payments for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.



Alimony, Child Support or Maintenance Income: Voluntary – Documentation

- The Mortgagee must document the voluntary payment agreement with:
 - 12 months of cancelled checks,
 - Deposit slips, **or**
 - Tax returns.
- If the Borrower has received consistent alimony, child support or other maintenance payments for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.



Alimony, Child Support, or Maintenance Income: Inconsistent Payments Effective Income

- If **legal record or voluntary payment** Alimony, Child Support, or other Maintenance payments **have not been consistently received** for the **most recent six months**, the Mortgagee must use the **average of the income received over the previous two years to calculate Effective Income.**
- If Alimony, Child Support, or Maintenance Income has been received **for less than two years**, the Mortgagee must **use the average over the time of receipt.**



Military Income: Expiration Term of Service Date

- The Mortgagee must:
 - Obtain a copy of the Borrower's military Leave and Earnings Statement (LES); and
 - Verify **the Expiration Term of Service date** on the LES.
- If the Expiration Term of Service date is **within the first 12 months of the mortgage**, Military **Income** may only be considered **Effective Income** if the **Borrower** represents **their intent to continue military service**.



Other Public Assistance

Required Documentation:

- Mortgagees must verify and document the income received from the government agency.
- If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.
- If the documentation does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue.





Automobile Allowances

- **Automobile Allowance** refers to the funds provided by the Borrower's employer for automobile-related expenses.
- The Mortgagee must:
 - Verify and document that the Automobile Allowance has been received for the **previous two years**; and
 - Obtain IRS Form 2106, *Employee Business Expenses*, for the last two years.

Note: Look for “Unreimbursed Employee Expenses” on Schedule A.





Automobile Allowances: Calculation

- The Mortgagee must subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received.
- 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.**



Automobile Allowances: Calculation (cont.)

- 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.



Rental Income

- **Rental Income** refers to income received or to be received from the subject property or other real estate holdings.



Self-Sufficiency Rental Income Eligibility (Three-to-Four Unit Properties)

- **Net Self-Sufficiency Rental Income** refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).
- The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.
- Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and **subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.**



Rental Income Received from the Subject Property

- How to begin to evaluate Rental Income:
 - Is the Rental Income being received from the subject property?
 - Does the Borrower have a history of receiving Rental Income from the subject since the previous tax filing?
 - How long has the Borrower owned the property?



Limited/No History of Rental Income Received: Subject Property

Borrower does not have a history of Rental Income from the subject property:	One Unit	Two-to-Four Units
	Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i> , Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i> , and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i> , showing fair market rent .	Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>).
	The prospective executed lease, if available .	The prospective executed leases, if available.
Document the date of acquisition by providing the deed, Closing Disclosure or other legal document.		





Limited/No History of Rental Income Received Subject Property: Calculation

- The Mortgagee must **add the net** subject property **Rental Income** to the Borrower's **gross income**.
- The Mortgagee must use the lesser of:
 - The monthly operating income reported on Freddie Mac Form 998; **or**
 - 75 percent of the lesser of:
 - Fair market rent reported by the appraiser; **or**
 - The rent reflected in the lease or other rental agreement.



History of Rental Income Received Subject Property

The borrower has a history of Rental Income from the subject property since the previous tax filing:	One Unit	Two-to-Four Units
	Executed lease	Executed leases
	24 month rental history free of unexplained gaps > 3 months	24 month rental history free of unexplained gaps > 3 months
	Borrower's most recent two years Tax Returns, including Schedule E	Borrower's most recent two years Tax Returns, including Schedule E
For properties with less than 2 years of Rental Income history, the date of acquisition must be documented by providing the deed, Closing Disclosure or other legal document.		

Note: If rental history over the previous 24 months reflects gaps greater than 3 months, an explanation is required. Such vacancies could be explained by seasonal or military renters, or property rehabilitation.



History of Rental Income Received Subject Property: Calculation

The Mortgagee must:

- **Add the net** subject property **Rental Income** to the Borrower's **gross income**; and
- Calculate the Rental Income by **averaging** the **amount shown on the Schedule E**.
- The Mortgagee **may not reduce** the Borrower's total **Mortgage Payment** by the net subject property **Rental Income**.
- If the property has been **owned for less than two years**, the Mortgagee must **annualize the Rental Income** for the **length of time the property has been owned**.





History of Rental Income Received Subject Property: Calculation (cont.)

The following items shown on the Schedule E may be added back to the income or loss:

- Depreciation;
- Mortgage interest;
- Taxes;
- Insurance; and
- Any HOA dues.



Rental Income Received from Other Real Estate Holdings

How to begin to evaluate Rental Income from other real estate holdings:

- Is the rental income being derived from the property being vacated by the Borrower?
- Does the Borrower have a history of receiving Rental Income from the subject property since the previous tax filing?
- How long has the Borrower owned the property?





Rental Income: Property Being Vacated by the Borrower

Rental Income from the Property being Vacated by the Borrower:	One Unit	Two-to-Four Units
	Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i> , Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i> , and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i> , showing fair market rent must be obtained on property being vacated. Appraisal not required to be completed by an FHA Appraiser.	Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>) must be obtained on property being vacated. Appraisal not required to be completed by an FHA Appraiser.
	Minimum 25% equity in vacated property	Minimum 25% equity in vacated property
	Executed one year lease agreement, commencing after the closing.	Executed one year lease agreement, commencing after the closing.
	Evidence of payment of the security deposit or first month's rent of least agreement.	Evidence of payment of the security deposit or first month's rent of least agreement.
	Evidence that the Borrower is relocating to an area more than 100 miles from the Borrower's current Principal Residence.	





Rental Income: Limited/No History Other Real Estate

Rental income Limited or No History by the Borrower:	One Unit	Two-to-Four Units
	<p>Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report</i>, Fannie Mae Form 1007/Freddie Mac Form 1000, <i>Single Family Comparable Rent Schedule</i>, and Fannie Mae Form 216/Freddie Mac Form 998, <i>Operating Income Statement</i>, showing fair market rent must be obtained on the investment property (s). Appraisal is not required to be completed by an FHA Appraiser.</p>	<p>Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i>) must be obtained on the investment property (s). Appraisal is not required to be completed by an FHA Appraiser.</p>
	<p>Investment property (s) must support a minimum 25% equity position.</p>	<p>Investment property must support a minimum 25% equity position.</p>
	<p>Executed one year lease agreement.</p>	<p>Executed one year lease agreement.</p>
<p>For properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Closing Disclosure or other legal document.</p>		





Limited/No History of Rental Income Received: Calculation

- To calculate the effective net Rental Income from other real estate holdings where the Borrower **does not have a history of Rental Income** since the previous tax filing, the Mortgagee must deduct the PITI from the lesser of:
 - The monthly operating income reported on Freddie Mac Form 998; **or**
 - 75 percent of the lesser of:
 - Fair market rent reported by the appraiser; **or**
 - The rent reflected in the lease or other rental agreement.





Rental Income: History Other Real Estate

The Borrower has a history of Rental Income since the previous tax filing:	One Unit	Two-to-Four Units
	Borrower's most recent two years executed Tax Returns, including Schedule E.	Borrower's most recent two years executed Tax Returns, including Schedule E.
	Properties with less than two years of Rental Income history, the date of acquisition must be documented by providing the deed, Closing Disclosure or other legal document.	





History of Rental Income Received: Calculation

- The Mortgagee must:
 - Calculate the Rental Income by **averaging** the **amount shown on Schedule E** of the Borrower's tax return, provided the Borrower continues to own all properties included on the Schedule E;
 - Annualize the Rental Income for properties owned less than two years;
 - Add positive Rental Income to the Borrower's Effective Income; and
 - Include negative net Rental Income as a recurring debt/liability.
- Depreciation shown on Schedule E may be added back to the net income or loss.



Boarder Income: Purchase Transactions

- **Boarder** refers to an individual renting space inside the Borrower's Dwelling Unit.
- Purchase Transactions:
 - The Mortgagee must obtain **two years of the Borrower's tax returns evidencing income from Boarders; and the current lease.**
- For purchase transactions, the Mortgagee must obtain a copy of the executed written agreement documenting the Boarders intent to continue boarding with the Borrower.



Expected Income

- **Expected Income** refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.
- The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.



Expected Income: Verification

- The Mortgagee must verify and document that the Borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between the mortgage closing and the start of the Expected Income.
- For expected Employment Income, the Mortgagee must verify the existence and the amount of the Expected Income with the employer in writing, and that it is **guaranteed** to begin within **60 days** of mortgage closing.
- For expected Retirement Income, the Mortgagee must verify the amount, and that it is **guaranteed** to begin within **60 days** of the mortgage closing.





Non-Taxable Income (Grossing Up)

- **Non-Taxable Income** refers to types of income not subject to federal taxes.
- The Mortgagee must document and support:
 - The amount of income to be grossed up for any non-taxable income source; and
 - The current tax rate applicable to the Borrower's income that is being Grossed Up.



Non-Taxable Income (Grossing Up): Calculation

- Non-Taxable Income that may be added cannot exceed the **greater of 15 percent or the appropriate tax rate for the income amount**, based on the Borrower's tax rate for the previous year.
- If the **Borrower was not required to file a federal tax return** for the previous tax reporting period, the Mortgagee may Gross Up the Non-Taxable Income by **15 percent**.
- The Mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.



Grossing Up Non Taxable Income: Example Scenario

- Mary is a single mother of 2 who files her tax return as Head of Household.
- Her taxable income for 2015 was \$73,750.
- She paid \$12,760 in federal taxes.
- Mary also receives Child Support in the amount of \$500 a month, or \$6,000 a year.



Grossing Up Non Taxable Income: Example Answer

2015 tax brackets (for taxes due April 18, 2016)

Tax rate	Single filers	Married filing jointly or qualifying widow/widower	Married filing separately	Head of household
10%	Up to \$9,225	Up to \$18,450	Up to \$9,225	Up to \$13,150
15%	\$9,226 to \$37,450	\$18,451 to \$74,900	\$9,226 to \$37,450	\$13,151 to \$50,200
25%	\$37,451 to \$90,750	\$74,901 to \$151,200	\$37,451 to \$75,600	\$50,201 to \$129,600
28%	\$90,751 to \$189,300	\$151,201 to \$230,450	\$75,601 to \$115,225	\$129,601 to \$209,850

Tax Bracket: 25%

Child Support Income: \$6,000

$\$6,000 \times 1.25 = \$7,500$ a year grossed up

$\$7,500$ a year grossed up / 12 months = \$625

Child Support Grossed Up = \$625 a month





Asset Requirements





General Asset Requirements

- The Mortgagee may only consider assets derived from acceptable sources in accordance with FHA Single Family Housing policy.
- Closing costs, prepaid items, and other fees may not be applied towards the Borrower's Minimum Required Investment.



Earnest Money Deposit

- The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit **exceeds 1 percent** of the sales price or is **excessive based on the Borrower's history of accumulating savings**, by obtaining:
 - A copy of the Borrower's cancelled check;
 - Certification from the deposit holder acknowledging receipt of funds;
or
 - A Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.
- If the source of the earnest money deposit was a gift, the Mortgagee must verify that the gift is in compliance with Gifts policy (Personal and Equity).





Premium Pricing on FHA-Insured Mortgages

- Premium Pricing refers to a credit from a Mortgagee for the interest rate chosen.
- Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items.
- Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.



Premium Pricing on FHA-Insured Mortgages (cont.)

- The funds derived from a Premium Priced Mortgage:
 - Must be disclosed in accordance with RESPA;
 - Must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; **and**
 - May not be used for payment of debts, collection accounts, escrow shortages, missed Mortgage Payments, or Judgments.





Interested Party Contributions on the Closing Disclosure

- The Mortgagee may apply Interested Party credits to the origination fees, other closing costs, and discount points, including any items Paid Outside Closing (POC).
- The refund of the Borrower's POCs may be used toward the Borrower's Minimum Required Investment (MRI) if the Mortgagee documents that the POCs were paid with the Borrower's own funds.
- The Mortgagee must identify each item paid by Interested Party contributions:
 - The total Interested Party credits on the front page of the Closing Disclosure or similar legal document or in an addendum.





Real Estate Tax Credits

- Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs at the time of underwriting.
- This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.



Reserves

- **Reserves** refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.
- The Mortgagee must verify and document all assets submitted to the AUS.



Reserves (cont.)

Reserves do not include:

- The amount of cash taken at settlement in cash-out transactions;
- Incidental cash received at settlement in other loan transactions;
- Equity in another property; or
- Borrowed funds from any source.



Source Requirements for the Borrower's Minimum Required Investment (MRI)

- **Minimum Required Investment (MRI)** refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the **Adjusted Value of the property**.



Source Requirements for the Borrower's Minimum Required Investment (MRI) (cont.)

- Where the **Borrower's MRI** is provided by someone other than the **Borrower**, the **Mortgagee** must also obtain documentation to support the permissible nature of the source of those funds.



Source Requirements for the Borrower's Minimum Required Investment (MRI) (cont.)

- The Mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI **must not** come from:
 1. The seller of the property;
 2. Any other person or Entity who financially benefits from the transaction (directly or indirectly); or
 3. Anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.



Source Requirements for the Borrower's Minimum Required Investment (MRI) (cont.)

- While additional funds to close may be provided by one of these sources, if permitted under the relevant source of funds requirements, **none of the Borrower's MRI may come from these sources.**
- The Mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.



Checking and Savings Accounts

- For recently opened accounts and recent individual deposits of more than one percent of the Adjusted Value, the Mortgagee must:
 - Obtain documentation of the deposits; **and**
 - Verify that no debts were incurred to obtain part, or all, of the MRI.



Standards for Gifts

- Gifts may be provided by:
 - The Borrower's Family Member;
 - The Borrower's employer or labor union;
 - A close friend with a clearly defined and documented interest in the Borrower;
 - A charitable organization; **or**
 - A governmental agency or Public Entity that has a program providing homeownership assistance to:
 - Low or moderate income families; or
 - First-time homebuyers.





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;
 - A child is defined as a son, stepson, daughter, or stepdaughter.
 - Parent or grandparent includes a step-parent/grandparent or foster parent/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, sister-in-law of the Borrower.





Documenting the Transfer of Gift Funds

- The Mortgagee must verify and document the transfer of gift funds from the donor to the Borrower.
- Regardless of when gift funds are made available to a Borrower, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source, and were the donor's own funds.



Documenting the Transfer of Gift Funds (cont.)

- If the gift funds:
 - Have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal, and evidence of the deposit into the Borrower's account.
 - Are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.
 - Are paid directly to the settlement agent, the Mortgagee must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.





Documenting the Transfer of Gift Funds (cont.)

- If the gift funds:
 - Are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, and not from a party to the transaction.
 - The Mortgagee and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.





Secondary Financing

- Secondary Financing is any financing other than the first Mortgage that creates a lien against the property.
- Any such financing that does create a lien against the property is not considered a gift or a grant, even if it does not require regular payments or has other features forgiving the debt.

Secondary Financing (cont.)

	Governmental Entities and HOPE Grantees	HUD-Approved Nonprofits	Family Members	Private Individuals and Other Organizations
Nationwide Mortgage Limits	The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The insured first mortgage cannot exceed the FHA Nationwide Mortgage Limit for the area in which the property is located.	The Base Loan and secondary financing amounts must not exceed the Nationwide Mortgage Limits for the area in which the property is located.
Secondary Financing for Borrower's MRI	Any secondary financing of the Borrower's MRI must fully comply with the additional requirements in <u>Source Requirements</u> for the Borrower's MRI.	The secondary financing may not be used to meet the Borrower's MRI.	The secondary financing may not be used to meet the Borrower's MRI.	The secondary financing may not be used to meet the Borrower's MRI.
CLTV Limitations	No maximum Combined Loan-to-Value (CLTV)	No maximum Combined Loan-to-Value (CLTV)	CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed 100 percent of the Adjusted Value.	The CLTV ratio of the Base Loan Amount and the secondary financing amount must not exceed the applicable FHA LTV limit.



Employer Assistance

- **Employer Assistance** refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI.
- Employer Assistance does not include benefits provided by an employer through secondary financing.
- A salary advance cannot be considered as an asset to close.



Employer Assistance: Relocation Guaranteed Purchase

- The Mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.
- Required Documentation:
 - Obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.
 - Verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.



Employer Assistance: Employer Assistance Plans

- The amount received under Employer Assistance Plans may be used as cash to close.
- Required Documentation
 - Verify and document the Borrower's receipt of assistance.
 - If the employer provides this benefit after settlement, the Mortgagee must verify and document that the Borrower has sufficient cash for closing.



Trade-In of Manufactured Housing

- Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured House that is not considered real estate to a Manufactured Housing dealer or an independent third party.
- The net proceeds from the Trade-In of a Manufactured House may be utilized as the Borrower's source of funds.
- Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.



Trade-In of Manufactured Housing (cont.)

- The Mortgagee must verify and document:
 - The installment sales contract or other agreement evidencing a transaction; and
 - Value of the trade-in or sale.
- The Mortgagee must obtain independent documentation to support the Trade Equity.



Sweat Equity

- **Sweat Equity** refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the property being purchased.
- The Mortgagee may not consider the following as **Sweat Equity**:
 - Clean up;
 - Debris removal;
 - General maintenance; and
 - Work to be performed using a repair escrow.





Sweat Equity (cont.)

- The Mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.
- Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the **Source Requirements for the Borrower's MRI**.
- The Mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount.
- Cash back to the Borrower is not permitted in Sweat Equity transactions.



Sweat Equity: Existing Construction-Documentation

- The Mortgagee must obtain:
 - An appraisal indicating the repairs or improvements to be performed;
 - The source of funds for the materials;
 - The Market Value of the materials;
 - Evidence of Contributory Value of the labor, either through an appraiser's estimate or a cost-estimating service; and
 - Documentation and verification that the work will be completed in a satisfactory manner.
- Any work completed or materials provided before the appraisal are not eligible.



Sweat Equity: Proposed Construction-Documentation

- The mortgage must obtain:
 - An appraisal indicating the repairs or improvements to be performed;
 - The source funds for the materials;
 - The Market Value of the materials;
 - Evidence of Contributory Value of the labor either, through an appraiser's estimate, or a cost-estimating service;
 - The sales contract indicating the tasks to be performed by the Borrower during construction; and
 - Documentation and verification that the work will be completed in a satisfactory manner.
- Any work completed or materials provided before the appraisal are not eligible.





Final Underwriting Decision





HUD Employee Mortgages

- If the mortgage involves a HUD employee, the Mortgagee must condition the loan on the approval of the mortgage by HUD.
- The Mortgagee must submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.



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.



Conditional Approval

- The underwriter must condition the approval of the Borrower on the completion of the final URLA (Fannie Mae Form 1003/Freddie Mac Form 65) and form HUD-92900-A at or before closing if the underwriter relied on an initial URLA and form HUD-92900-A in underwriting the Mortgage.



Final Underwriting Decision (Total)

The Mortgagee may approve the mortgage as eligible for FHA insurance endorsement if:

- The TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- The Mortgagee reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into the TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate;
- The mortgage meets all FHA requirements applicable to mortgages receiving a rating of Accept from the TOTAL Mortgage Scorecard;
- A DE underwriter underwrote the appraisal according to standard FHA requirements; and
- Approved the Property as acceptable for FHA Single Family insurability.





Documentation of Final Underwriting Review Decision

- The Mortgagee must complete the following documents to evidence their final underwriting decision:
 - Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*;
 - Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*; and
 - Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*.



Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary* (TOTAL)

- On form HUD-92900-LT, the Mortgagee must:
 - Indicate the CHUMS ID of the underwriter who reviewed the appraisal;
 - Complete the Risk Assessment; and
 - Enter the identification of “ZFHA” in the CHUMS ID.
- When the Feedback Certificate indicates “Accept/Ineligible,” the Mortgagee must document the circumstances or other reasons that were evaluated in making the decision to approve the mortgage in the Remarks section.



Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

- The Mortgagee must complete form HUD-92900-A as directed in the form instructions.
- The underwriter, an authorized officer of the Mortgagee, and the Borrower must execute form HUD-92900-A, as indicated in the instructions.



Form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*

- The underwriter must complete form HUD-92800.5B as directed in the form instructions.



Notification of Borrower of Approval and Term of the Approval

- The Mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:
 - Conditional Commitment issued by HUD; or
 - the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.



Documented Scoring Results: Feedback Certification

- The Mortgagee must include in the case binder the last scoring event feedback certification (feedback document) upon which the Mortgagee made its credit decision, regardless of credit risk evaluation.



Summary

- We have reviewed **Underwriting the Borrower Using the TOTAL Mortgage Scorecard**.
- Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the final underwriting decision.
- The Mortgagee must ensure full compliance with all FHA eligibility requirements.



Summary (cont.)

- Underwriting requires careful analysis of the many aspects of the mortgage application. Each mortgage is a separate and unique transaction.
- A mortgage transaction that meets minimal standards does not necessarily constitute prudent underwriting. The underwriter should judge the overall merits of the loan application to render a justifiable and documentable decision.



Helpful Links

FAQ Site:

<http://portal.hud.gov/hudportal/HUD?src=/FHAFQA>

FHA Webinar Archive:

http://portal.hud.gov/hudportal/HUD?src=/program_office/s/housing/sfh/events/sfh_webinars

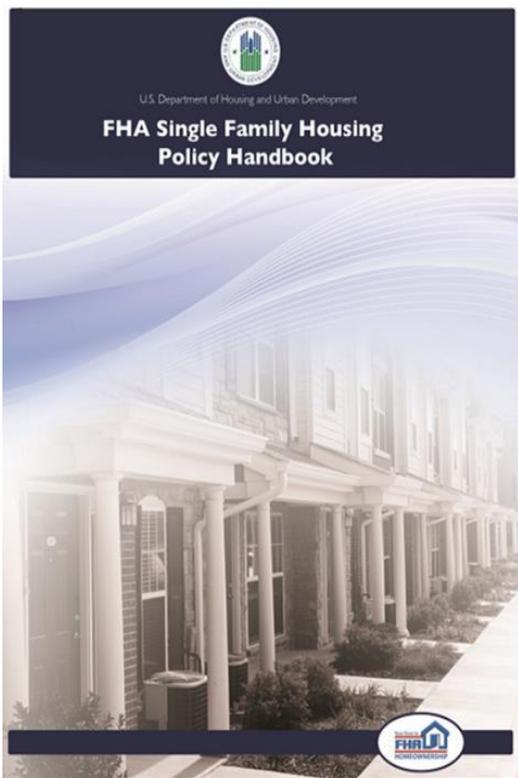
Single Family Lender page:

www.hud.gov/lenders





Single Family Housing Policy Handbook 4000.1 **Training Webcast Series**



Thank you for attending.

