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

Module 8: Programs and Products – All Other Programs

As of June 30, 2016

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FHA Single Family Housing Policy Handbook

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Introduction

- The Programs and Products section of the SF Handbook provides Mortgagees with FHA’s underwriting requirements for other mortgage programs/products under Title II.
- Mortgages to be insured under a specific Single Family program must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program.
- Where 203(b) program guidance conflicts with the specific program requirements provided on the Program and Product specific Sections, this specific guidance shall prevail.

Presentation Program and Products

- 203(h) Mortgage Insurance for Disaster Victims
- Energy Efficient Mortgages (EEMs)
- Section 251—Adjustable Rate Mortgages
- Section 248—Mortgages on Indian Land
- Section 247—Single Family Mortgage Insurance on Hawaiian Home Lands

Presentation Programs and Products (cont.)

- New Construction
- Construction to Permanent
- Building on Own Land
- Weatherization
- Solar and Wind Technologies
- Assumptions
- HUD Real Estate Owned Purchasing

203(h) Mortgage Insurance for Disaster Victims

203(h) Mortgage Insurance for Disaster Victims

- Section 203(h) of the National Housing Act authorizes FHA to insure mortgages for the purchase or reconstruction of a Single Family property for victims residing within a Presidentially-Declared Major Disaster Area (PDMDA).

203(h): Borrower Eligibility

- The FHA case number must be assigned within one year of the date the PDMDA is declared.
  - The date of the President's signature on the declaration is used; unless
  - An additional period of eligibility is provided and signed by the President.

203(h): Previous Property Eligibility

- The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary.
- A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA) at www.fema.gov.

203(h): Subject Property Eligibility

- The purchased or reconstructed property must be a Single Family property or a unit in an FHA-approved Condominium Project.
- If the transaction is a purchase, the house need not be located in the area where the previous house was located.
- Disaster victims are not required to purchase the new property in the PDMDA area.

203(h): Minimum Required Investment/Maximum Loan-to-Value (LTV) Ratio

- The Borrower is not required to make the Minimum Required Investment (MRI).
- The maximum Loan-to-Value (LTV) ratio limit is 100 percent of the adjusted value.
- When a 203(k) is used in conjunction with the 203(h), the 203(k) LTV limits apply.
  - Refer to SF Handbook, Section II.A.8.a.

203(h): Underwriting

- The Mortgagee should be as flexible as prudent decision making permits.
- The Mortgagee is required to make every effort to obtain traditional documentation and document their attempts for:
  - Employment;
  - Assets; and
  - Credit
- The Mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a mortgage.

203(h): Underwriting (cont.)

- Where traditional documentation is unavailable, the Mortgagee may use alternative documentation subject to additional guidelines for:
  - Credit;
  - Income;
  - Liabilities;
  - Assets; and
  - Housing Payment History.

203(h): Credit

- For Borrowers with derogatory credit, the Mortgagee may consider the Borrower a satisfactory credit risk if:
  - The credit report indicates satisfactory credit prior to a disaster; **and**
  - Any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

Credit Alert Verification Reporting System (CAIVRS)

- Mortgagees must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS), including those impacted by federally declared disasters.
  - For additional information on CAIVRS, refer to SF Handbook, Section II.A.1.B.ii.

203(h): Income

- If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept:
  - W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

- FHA will also accept documented short-term employment obtained following the disaster for the calculation of Effective Income.

203(h): Liabilities

- When a Borrower is purchasing a new home, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities.

- To exclude this payment, the Mortgagee must:
  - Obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their mortgage obligation; **and**
  - Apply any property insurance proceeds to the mortgage of the damaged home.

203(h): Assets

- If traditional asset documentation is not available, the Mortgagee may use account statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the mortgage.

- ***NOTE:*** *See SF Handbook, Section* II.A.8.b.

203(h): Housing Payment History

- The Mortgagee may disregard any late payments for a previous obligation on a property that was destroyed or damaged in the disaster:
  - Where the late payments were a result of the disaster; **and**
  - The Borrower was not three or more months delinquent on their mortgage at the time of the disaster.
- The Mortgagee may justify approval when the Borrower is three or more months delinquent if extenuating circumstances are documented by the Mortgagee.

203(h): Eligibility Documentation Requirements

- Documentation attesting to the damage of the previous home must accompany the mortgage application.

- The Mortgagee must document and verify that the Borrower's previous residence was:
  - In the disaster area; **and**
  - Destroyed or damaged to such an extent that reconstruction or replacement is necessary.

203(h): Refinancing Using 203(k)

- Refinancing is permitted in conjunction with rehabilitation under the 203(k) program.
- Damaged residences located in the PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the property.
- The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k).
- If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

203(h): Refinancing Using 203(k) (cont.)

- The Borrower is not required to make the MRI.
- A down payment may be required based on 203(k) guidelines and down payment funds may come from other sources other than the Borrower's own funds, e.g., rent funds, special funds set aside for disaster funds, etc.
- All other 203(k) policy must be followed.

NOTE: *See SF Handbook, Section II.A.8.a.*

Energy Efficient Mortgage (EEM)

Energy Efficient Mortgage (EEM) Program

- Allows the Mortgagee to offer financing for cost-effective, energy efficient improvements to:
  - An existing property at the time of purchase or refinancing; **or**
  - For upgrades above the established residential building code for new construction.

EEM: Eligible Property Types

- EEM may be used with:
  - New Construction properties (one- to four-units);
  - Existing Construction properties (one- to four-units);
  - Condominiums (one unit); or
  - Manufactured Housing.

EEM: Eligible Programs and Transactions Types

- The EEM program can be used in conjunction with any mortgage insurance product or program under Title II, including:
  - 203(b);
    - Purchase; **or**
    - No cash-out refinance.
  - 203(h) Mortgage Insurance for Disaster Victims;
  - 203(k) Standard and Limited (former Streamline); and
  - Weatherization Policy (Existing Construction only).

EEM: Energy Package

- The energy package is the set of improvements agreed to by the Borrower based on recommendations and analysis performed by the qualified home energy rater.

- The improvements can include:
  - Materials, labor, inspections, and the home energy assessment by a qualified energy rater.

- If the Borrower desires, labor may include the cost of an EEM Facilitator (project manager).

- Borrower labor (Sweat Equity) is not permitted to be included in the loan amount.

EEM: EEM Facilitator (Project Manager)

- What does an EEM Facilitator do?
  - An EEM Facilitator is a project manager that provides services such as:
    - Arrange the inspections;
    - Obtain the required documents for the Mortgagee, and on behalf of the Mortgagee; and
    - Ensure that the improvements comply with recommendations in the Home Energy Report.

EEM: Cost-Effective Test

- Cost-Effective refers to the costs of the energy efficiency improvements including maintenance and repair, and is one where the cost of the improvements is less than the value of the energy saved over the estimated useful life of those improvements.

EEM: Cost-Effective Test Example

Annual Savings: $164
Useful Life: 7 Years
Total Savings Over Useful Life: $164 x 7 = $1,148
Water Heater Cost: $1,000
Maintenance and/or Repairs (within 7 Years): $100

- Is it okay to finance this item?
- YES. Savings over 7 years is greater than the cost of the item plus the cost of maintenance and/or repairs.
- $1,148 - $1,100 = $48

EEM: Cost Effective Test for New Construction

- The financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following:
  - The requirements of the 2006 International Energy Conservation Code (IECC);
  - A successor energy code standard that has been adopted by HUD for its Minimum Property Standards (MPS), pursuant to 42 U.S.C. § 12709; **or**
  - The applicable IECC year used by the state or local building code for New Construction.

EEM: Cost Effective Test for New Construction (cont.)

- For new construction, any upgrades greater than existing code may not bear out savings that would exceed the improvement cost.
- More information on the energy code can be obtained from the Department of Energy or the International Code Council.

EEM: Home Energy Report/Assessment

- The Borrower must obtain a home energy assessment.
- The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and cost-effectiveness of these opportunities.
- The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols, and procedures.

EEM: Qualifications of Energy Raters/Assessors

- Qualified home energy raters/assessors must be trained and certified as **<u>one</u>** of the following and meet local and state jurisdictional requirements:
  - Building Performance Institute / Building Analyst Professional;
  - Building Performance Institute / Home Energy Professional Energy Auditor;
  - Residential Energy Services Network / Home Energy Rater; or
  - Energy rater, assessor, or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure and insurance requirements.

EEM: Home Energy Report

The Mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

- The home energy report:
  - Reflects recommendations of energy-saving improvements for the Borrower's consideration;
  - Provides estimates of energy savings and cost-effective analysis for each of the suggested improvements. The estimates consider energy costs in today's dollars (present value);
  - Must reflect one of the professional credentials by the rater/assessor; and
  - Is submitted with the insuring file.

EEM: Home Energy Report for New Construction

- On newly constructed housing, the home energy report must identify improvements that are over and above the greater of the following in order to apply the cost-effective test for new construction:
  - The requirements of the 2006 IECC, or a successor energy code standard, that has been adopted by HUD for its MPS, pursuant to 42 U.S.C. § 12709; **or**
  - The applicable IECC year used by the state or local building code for new construction.

EEM: Required Documentation

- The Mortgagee must obtain a copy of the home energy report.
  - The report must not be more than 120 days old.

- The Mortgagee must submit two Forms HUD 92900-LT:
  - FHA Loan Underwriting; and
  - Transmittal Summary.

EEM: Maximum Financeable Energy Package

- The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of:
  - The dollar amount of a cost-effective energy package as determined by the home energy audit; **or**
  - The lesser of 5 percent of:
    - The Adjusted Value;
    - 115 percent of the median area price of a Single Family dwelling; or
    - 150 percent of the national conforming mortgage limit.

EEM: Calculation of Cost-Effect Energy Package

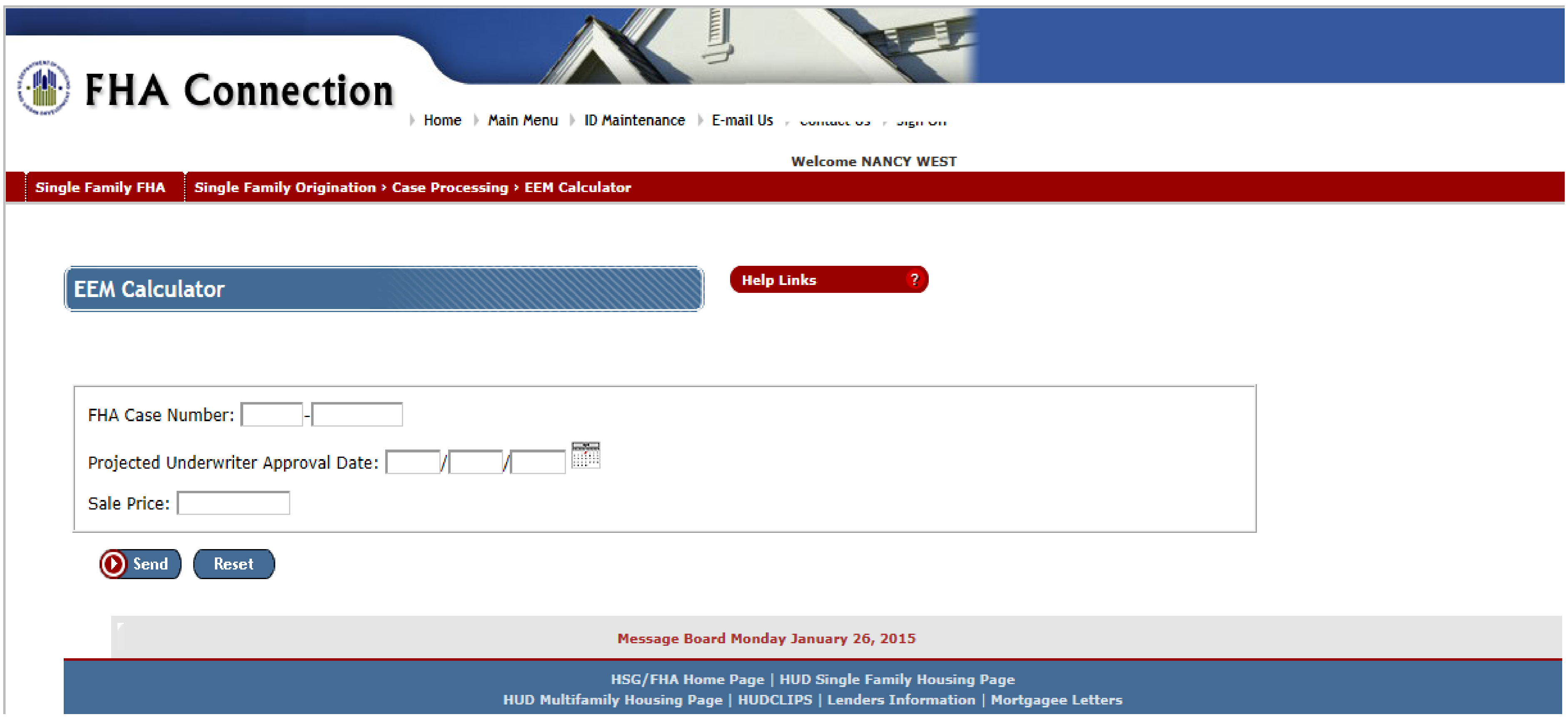
- The Mortgagee must calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package.

- A tool was developed to provide assistance in the calculation of the Maximum Financeable Energy Package:
  - EEM calculator.

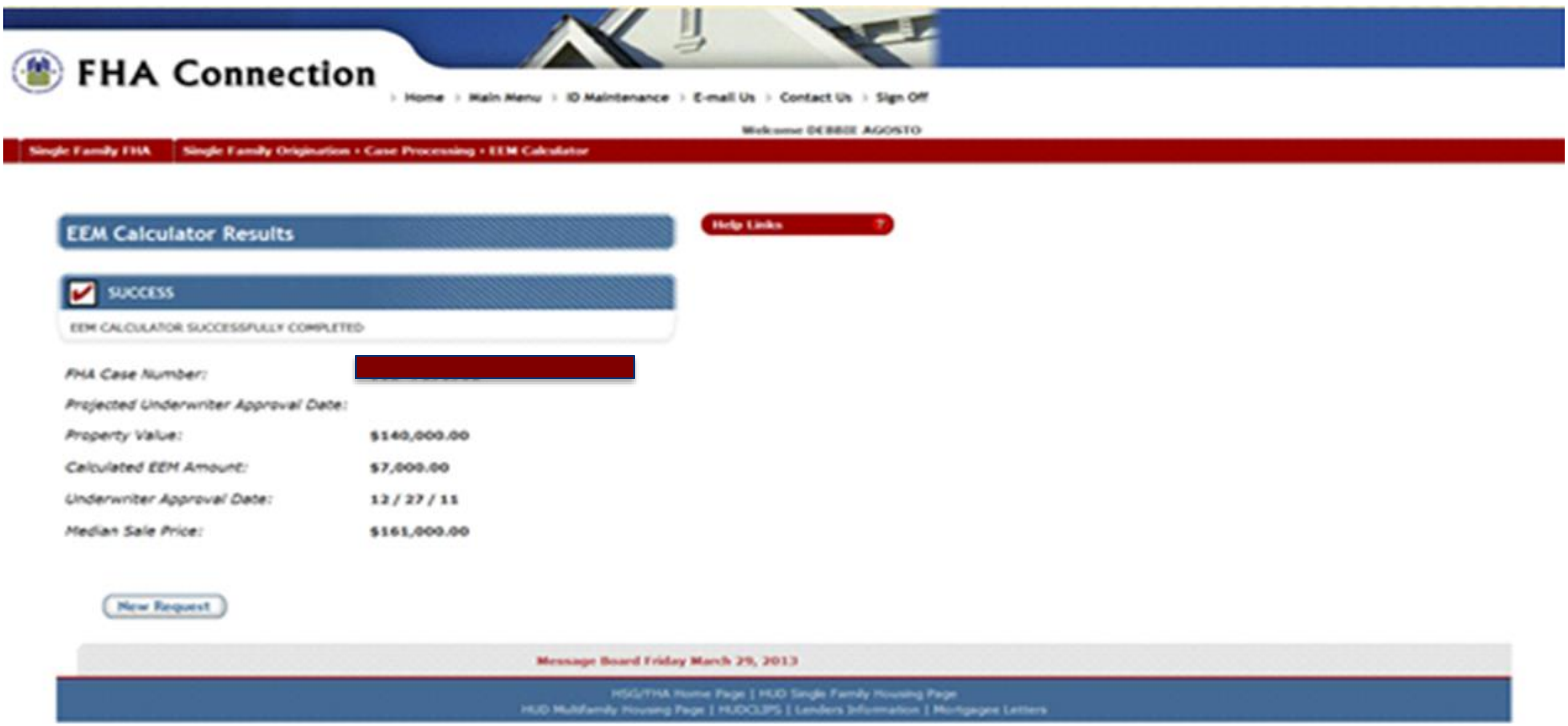
EEM: EEM Calculator Tool

- The EEM Calculator located in FHA Connection (FHAC) performs the calculation of Maximum Financeable Energy Package:
  - Case processing screen accessible by Mortgagee.
- For standard 203(b) transactions:
  - The EEM Calculator uses data entered for the mortgage to calculate the maximum energy package.
- For Streamlined Refinance:
  - The EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.

EEM: EEM Calculator Tool (cont.)



EEM: EEM Calculator Tool (cont.)



EEM: Maximum Mortgage Amount for Existing Construction

- The maximum **final** Base Loan Amount is determined by adding:
  - The maximum financeable energy package amount to the initial maximum Base Loan Amount.

EEM: Maximum Mortgage Amount for Existing Construction (cont.)

Base Loan Amount
+ Energy Efficient Package
= Subtotal
+ UFMIP
= Total FHA Loan Amount

- May exceed the statutory mortgage limits for the area by the financed amount of Energy Package

EEM: Maximum Mortgage Amount For New Construction

- Determine Adjusted Value to calculate the Base Loan Amount:
  - The cost of the financeable energy package included in the purchase contract must be subtracted from the sales price when computing the Adjusted Value.

EEM: Maximum Mortgage Amount for New Construction (cont.)

- The steps for calculating the maximum mortgage amount for new construction are:
  - Determine the Adjusted value;
  - Determine maximum financeable energy package using the EEM calculator in FHAC; and
  - Determine the maximum FHA mortgage.

EEM: Maximum Mortgage Amount for New Construction (cont.)

Step 1:

Sales Price

\- Energy Package Reflected in Home Energy Audit

= **Adjusted value for calculating the base loan amount**

EEM: Maximum Mortgage Amount for New Construction (cont.)

Step 2:

Base Loan Amount

+ Maximum **Financeable** Energy Package Calculation

Subtotal

+ UFMIP

= **Total FHA Loan Amount**

May exceed the statutory mortgage limits for the area by the financed amount of Energy Package.

EEM: Maximum Mortgage Amount with 203(k) or Weatherization

- When utilizing an EEM in conjunction with 203(k) or Weatherization:
  - The items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs.

EEM with 203(k) or Weatherization Calculation

Step 1:

Maximum mortgage based on 203(k) or Weatherization Calculation

- Energy Package Reflected in Home Energy Audit

= **Base loan amount**

EEM with 203(k) or Weatherization Calculation (cont.)

Step 2:

Base loan amount

\+ Maximum **Financeable** Energy Package

\+ UFMIP

= **Total FHA loan amount**

EEM: Underwriting

- The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

EEM: Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard

- For purposes of submission to the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard:
  - The Mortgagee must utilize the initial Base Loan Amount prior to the addition of the financeable energy package.

EEM: TOTAL Mortgage Scorecard (cont.)

- If the Mortgagee obtains an Accept or Approve on a mortgage application that does not include the financeable energy package:
  - FHA will recognize the risk rating from the TOTAL Mortgage Scorecard; **and**
  - Permit the increase to the Mortgage Payment without re-underwriting or rescoring.

EEM: Underwriting Documentation

- For all EEM transactions, the Mortgagee must provide **two** Form HUD 92900-LT's, regardless of how the mortgage was underwritten:
  - Two for TOTAL Mortgage Scorecard; or
  - Two for Manual underwrite.

- Both must be provided in the case binder.

EEM: Underwriting Documentation for both TOTAL Mortgage Scorecard and Manual Underwriting

HUD-92900-LT #1

- Without the financeable Energy Package.
- Reflecting the Borrower's qualifying ratios.

EEM: Underwriting Documentation for both TOTAL Mortgage Scorecard and Manual Underwriting (cont.)

HUD-92900-LT #2

- Mortgage amount with the financeable energy package as reflected in FHAC.
- Certification from underwriter attesting that they have reviewed the calculations with the energy efficient improvements and the mortgage and property to be in compliance with FHA's underwriting policy.

EEM: Appraisals

- For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the property.

- If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.

- On the 203(k) program, the after-improved value is to be used for the EEM process.

EEM: Cash-Out

- The Borrower may not receive cash back from the mortgage transaction.
- If an excess exists, funds must be applied to the principal mortgage balance.

EEM Escrows

- The Mortgagee must establish an escrow account for all energy package items not complete by the time of closing:
  - For the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements; and
  - If energy package is part of 203(k), escrowed funds must be included in the Rehabilitation Escrow Account.

- Repair Completion Escrow Requirements are located in HUD Handbook 4000.1, Section II.A.6.a.

Form HUD-92300
Mortgagee's Assurance of Completion

- When funds to complete the energy package are escrowed:
  - The Mortgagee must execute Form HUD-92300, *Mortgagee's Assurance of Completion*; and
  - Indicate that the escrow for the energy package improvements has been established.

Completion Requirements for EEMs

- With the exception of 203(k), the energy package is to be installed within 90 days of the mortgage closing.
- If the work is not completed within 90 days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

Energy Efficient Homes (EEH): Stretch Ratios

- An Energy Efficient Mortgage (EEM) is not the same as an Energy Efficient Home (EEH).
- Borrower's income qualifying ratios can be increased by two percentage points above the standard limits (stretch ratios) for homes that meet the energy efficient standards.
- EEH is allowable for all loan products.
- Stretch ratios are a stand alone policy for compensating factors.

EEH: Standards for Existing Construction

- For mortgages on Existing Construction, the Borrower is eligible for the EEH stretch ratios when the property meets either of the following conditions:
  - Homes that *currently* score a **"6" or higher** on the Home Energy Score scale; or
  - Homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home's score to a **"6" or higher** are completed prior to closing, or in association with FHA's 203(k), Weatherization, EEM or Solar and Wind programs.

EEH: Standards for New Construction

- For mortgages on New Construction, the Borrower is eligible for the EEH stretch ratios when the property meets or exceeds the higher of:
  - The 2006 International Energy Conservation Code (IECC);
  - Any successor energy code standard that has been adopted by HUD for its Minimum Property Standard (MPS); or
  - The applicable IECC year used by the state or local building code.

EEH: Required Documentation

The following documents must be included in the case binder submitted for endorsement:

- For mortgages on Existing Construction;
  - A copy of the Home Energy Score Report.

- For mortgages on New Construction;
  - A copy of the Builder's Certification, form HUD-92541, to evidence the IECC code, successor code or local/state building code used.

Completion Inspection

- The Mortgagee, the rater, or an FHA Roster fee inspector may inspect the installation of the improvements.
- An FHA fee inspector must be currently approved and currently on the roster.
- The Borrower may be charged an inspection fee.

Section 251
Adjustable Rate Mortgages

Section 251 Adjustable Rate Mortgages

- An Adjustable Rate Mortgage (ARM) refers to a mortgage in which the interest rate can change annually based on an index plus a margin.

Index + Margin = Interest Rate

Adjustable Rate Mortgage (ARM) Program

- The Mortgagee must establish the initial interest rate and the margin.
- The initial interest rate must remain constant for the initial period:
  - 1, 3, 5, 7, or 10 year(s).
- Program is chosen by Borrower.
- The margin must be constant for the entire term of the mortgage.

ARM Program (cont.)

- After the initial interest rate period, the rate may change annually for the remainder of the term.
- All FHA ARMs are fully amortizing over a period of no more than 30 years.
- The Borrower must sign a disclosure that explains the terms of the ARM at time of application:
  - SF Handbook, Section II.A.1

ARM: Indices

- The interest rate governing index may be:
  - 1-Year Constant Maturity Treasury (CMT); **or**
  - 1-Year London Interbank Offered Rate (LIBOR).
- The 1-Year CMT is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year:
  - Published in the Federal Reserve Board's Statistical Release H.15(519).

ARM: Underwriting Requirements

- The Mortgagee must underwrite the mortgage based on payments calculated using the initial/qualifying interest rate:
  - Except 1 year ARM where LTV is 95 percent or more, in which case the Mortgagee must underwrite the Mortgage based on payments calculated using the initial interest rate plus 1%.
- Temporary interest rate buydowns are not permitted with ARM transactions.

ARM Program Qualifying and Rate Adjustment

Initial Period (Years)	Qualifying Rate		Max Annual Adjustment %	Max Adjustment % over Life of Loan
1	LTV =/>95%	Initial Interest Rate + 1%	1	5
	LTV <95%	Initial Interest Rate		
3	Initial Interest Rate		1	5
5	Initial Interest Rate		1	5
			2	6
7	Initial Interest Rate		2	6
10	Initial Interest Rate		2	6

ARM Initial Interest Rate Adjustments

The first interest rate adjustment must occur in accordance with the following chart:

If the ARM is initially at a fixed interest rate for ...	Then the first adjustment rate change may occur no sooner than ...	And no later than ...
1 year	12 months	18 months.
3 years	36 months	42 months.
5 years	60 months	66 months.
7 years	84 months	90 months.
10 years	120 months	126 months.

ARM Documentation Requirements

Document	When Provided	Requirement
ARM Disclosure	Application	Explains the terms of the ARM
Model Arm Note	Settlement	Must provide a full description of the adjustable rate feature of the mortgage required to create an enforceable agreement and amortization provisions that allow for annual adjustments in the rate of interest charged.
Mortgage Documents	Settlement	Must specify the initial interest rate, margin, date of the first adjustment to the interest rate, and frequency of adjustments.

Section 248
Mortgages on Indian Land

Section 248 Mortgages on Indian Land Defined

- Refers to a purchase or refinance mortgage covering one-to-four unit family dwellings on Indian Land.
- Refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

Indian Land: Tribe Defined

- Indian Tribe refers to:
  - Any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians;
  - Alaskan natives recognized as eligible for the services provided to Indians; ***or***
  - Alaskan natives by the Secretary of Interior because of its status as such an Entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

Section 248: Standard Eligibility

- The Mortgagee must obtain documentation from the Indian/Native American that the Indian Land/reservation has adopted eviction procedures acceptable to HUD.

Indian Land: Required Documentation and Certifications

- The Mortgagee must obtain a certification from the Indian Tribe confirming the Indian Land/reservation compliance with HUD's requirements.

- The Mortgagee must include the certification in the mortgage file.
  - The tribe has adopted eviction procedures and will enforce them;
  - Permits HUD access to tribal lands for the purpose of servicing properties;
  - Agrees to the lease form that HUD prescribes; **and**

Indian Land: Mortgagee Required Certifications (cont.)

- Enacts a law that grants the tribal government's court the jurisdiction to hear evictions and foreclosures so that FHA-insured and FHA-held mortgages can be assured a first lien; **or**

- Provides that the law of the state in which the property is located shall determine the priority of liens against the property.
  - If reservation spans two or more states, the state where the property is located is the applicable state law.

Section 248: Borrower Eligibility

- Only an Indian Tribe or a member of the Indian Tribe may be a Borrower.
- Where there is a co-Borrower, at least one Borrower must be an Indian Tribe or a member of the Indian Tribe.
- The Borrower must occupy the property as their Principal Residence.

Section 248: Property Eligibility

- The property must be located on land held by the Indian Tribe or held by the United States Government for the benefit of the Indian Tribe.
- Units in cooperatives are not eligible.
- The Borrower must hold a Residential Lease for the property.

Section 248: First Lien Status

- The mortgage must be secured by a first lien on the property that has been filed:
  - With the State recording system; **and**
  - With the Bureau of Indian Affairs, U.S. Department of Interior.

Section 248: Assumptions

- The Mortgagee cannot approve an assumption of a mortgage secured by a property located on an Indian Land/reservation unless:
  - The Indian Tribe has approved the assumption or sale of the rights to the property securing the mortgage.

- The Mortgagee must comply with all requirements for assumptions.

Section 248: Lease

- The model Lease and model Mortgage Rider must be used in connection with any Section 248 mortgage.
- Modifications may be made to the Section 248 rider with the approval of the Jurisdictional HOC where the property is located.

Section 248: Lease (cont.)

- The term of the lease must be 25 years with a provision for an automatic extension of an additional 25 years.
- Total of 50 years needed:
  - 25 year lease + 25 year extension = 50 years.
- The lease must prohibit termination by either or both parties while the Leasehold is mortgaged under Section 248.

Section 248: Underwriting

- Tribal Leasehold and Taxes
  - The Mortgagee must obtain tax information on the Leasehold from the Tribe.
  - The Mortgagee must include the payment of such taxes in the calculation of the Borrower's Mortgage Payment as is done with local property taxes.

Section 248: Upfront Mortgage Insurance Premium (UFMIP)

- The Section 248 program does not require an Upfront Mortgage Insurance Premium (UFMIP).
- Annual premiums are required to be paid:
  - SF Handbook, Appendix 1.0.

Section 248: Valuation

- The Mortgagee must ensure that the appraisal of the property meets the requirements specified in the Appraisal of Single Family Housing on Indian Lands section of the Appraiser requirements:
  - SF Handbook, Section I.B.1.

Section 247
Single Family Mortgage Insurance on Hawaiian Home Lands

Section 247: Single Family Mortgage Insurance on Hawaiian Home Lands

- FHA insures mortgages made to Native Hawaiians to purchase or refinance one- to four-family dwellings located on Hawaiian Home Lands, which:
  - Are owned by the State of Hawaii, Department of Hawaiian Home Lands (DHHL); **and**
  - Leased to Native Hawaiians for 99 year lease terms.

Section 247: Borrower Eligibility

- A Borrower must be a native Hawaiian who:
  - Is at least 18 years of age; **and**
  - Is certified as eligible to hold a Hawaiian Home Lands Lease; **or**
  - Possesses a lease of Hawaiian Home Lands issued under Section 207(a) of the Hawaiian Homes Commission Act, 1920:
    - Certified by the Department of Hawaiian Home Lands as being a valid current lease, and not in default.

Section 247: Native Hawaiian

- Native Hawaiian means a descendant of not less than 50 percent part of the blood of the races inhabiting the Hawaiian Islands before January 1, 1778, except for:
  - An individual who succeeds a spouse or parent in an interest in a lease of Hawaiian Home Lands, such lower percentage as may be established for such succession under laws adopted or enacted by the state, or corresponding provision under the constitution of the State of Hawaii.

Section 247: Property Eligibility

- The property must be the Borrower's principal residence.
- Leased land condominiums and townhomes are allowed.
- The mortgaged property must be located within the recognized Hawaiian Home Lands:
  - Covered under a homestead lease issued under Section 207 of the Hawaiian Homelands Act or provision in the constitution of the State of Hawaii.

Section 247: Required Documentation

- The following documents must be obtained from the Department of Hawaiian Home Lands (DHHL):
  - **Certificate of Eligibility:**
    - Issued by DHHL and certifies the Borrower possesses a homestead lease in good standing (not cancelled or in default); and
    - Requested from and provided by DHHL.

Section 247: Required Documentation (cont.)

- **<u>Homestead Lease:</u>**
  - A recorded copy of the original Homestead Lease issued by DHHL that identifies the Borrower as the lessee; **or**
  - The original Homestead Lease plus documentation of the chain of succession or assignment of the Homestead Lase to the Borrower; **and**
  - DHHL's consent to each and every transfer of the Homestead Lease and evidence of recording.

Section 247: Required Documentation (cont.)

- **<u>Mortgage Insurance Rider:</u>**
  - The Mortgagee must obtain an executed copy of the DHHL Mortgage Insurance Program Rider.
  - Rider must be recorded in DHHL's recording system.

Section 247: Required Documentation (cont.)

- **DHHL Mortgage Form:**
  - The Mortgagee must use the DHHL Mortgage Form.
  - The Mortgagee must certify and document that the mortgage has been recorded with DHHL.

Section 247: Required Documentation (cont.)

- **<u>DHHL Consent Form:</u>**
  - The Mortgagee must obtain a "Consent to Mortgage" executed by the Chairman of the Hawaiian Homes Commission and recorded with DHHL.
  - Mortgagees can obtain this form by writing to the DHHL, Att: Loan Services Branch.

Section 247: Appraisal

- Mortgagees are required to obtain only a Cost Approach Appraisal for both Existing and Proposed Construction.
- Market and Sales Comparison Approaches are not required.
- The following statement may be included:
  - "The final value stated in this appraisal is not 'market value' as defined in USPAP. This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for DHHL properties."

Section 247: Loan-to-Value Limits

Transaction Type	LTV	
Purchase	85% of the Adjusted Value	
Refinance	75% of the Adjusted Value	Cash-out Refinance
	85% of the Adjusted Value	Paying off existing mortgage and remaining proceeds are used for documented home improvement.

Section 247: Mortgage Insurance Premium

- The Mortgage Insurance Premium (MIP) payment on a Section 247 Mortgage is a one-time upfront MIP of 380 basis points (bps):
  - 3.8 percent.
- Annual or periodic MIPs are not assessed on Section 247 mortgages.

Section 247: Underwriting a Refinance

- For refinance transactions, for the purpose of consolidating debt:
  - The Mortgagee must include all debt, **<u>including those being paid off through the refinance</u>**, when calculating the Borrower's debt ratio; and
  - Even though paying debts off, they still must be counted for qualifying.

Section 247: Closing

- The Section 247 Mortgage must give rise to a valid and secured interest in the mortgaged property.

- For Section 247 Mortgages, the lien is not required to be in first position.

Section 247: Recordation

- The mortgage must be recorded in DHHL's recording system upon closing of the mortgage.
- The documents must **NOT** be recorded at the State of Hawaii Bureau of Conveyances or filed with the Office of Assistant Registrar of the Land Court.
- Recordation at either of these offices does not effectuate a lien on the Hawaiian Home Lands lease.

New Construction

New Construction

- New Construction refers to properties that are:
  - Proposed;
  - Under Construction; or
  - Completed within one year.

- Each type of New Construction has separate/distinct guidance.

Proposed Construction

- Proposed Construction refers to a property where no concrete or permanent material has been placed.

- Digging of footing and placement of rebar is not considered permanent.

Under Construction

- Under Construction refers to the period from:
  - The first placement of permanent material to 100 percent completion; and with no Certificate of Occupancy (CO) or equivalent.

Existing for Less than One Year

- Existing for Less than One Year refers to a property that:
  - Is 100 percent complete; **and**
  - Has been completed less than one year from the date of the issuance of the CO or equivalent.
- The property must have **<u>never been occupied</u>**.

Pre – Approval

- Pre-approval refers to properties that are **<u>less than one year old and meet one of the following requirements</u>**:
  - The property was appraised and the Mortgagee issued a HUD 92800.5B *Conditional Commitment Direct Endorsement Statement of Appraised Value* before construction started;
  - A building permit or its equivalent has been issued by a local jurisdiction (not applicable to Manufactured Housing); and
  - The Mortgagee issued an Early Start Letter.

Early Start Letter

- Early Start Letter refers to the document issued by the Mortgagee:
  - In response to a builder's request to start construction before the appraisal is complete;
  - Indicates the Mortgagee's approval of the property before issuance of the HUD 92800.5B and without affecting the maximum mortgage amount; and
  - The Mortgagee can issue the Early Start Letter if local jurisdiction has issued a building permit and a case number has been assigned.

10-Year Warranty

- A 10-Year Warranty refers to an agreement between the Borrower and a plan issuer that contains warranties regarding the:
  - Construction; and
  - Structural integrity of the dwelling securing the FHA-insured mortgage.
- The plan must be a HUD-accepted insured 10-year protection plan.

***NOTE**: Located at www.hud.gov*

Inspections or Warranties for Maximum Financing: Site Built Housing or Condominiums

Proposed Construction

The Mortgagee must obtain one of the following:

- Copies of the building permit and CO (or equivalent); or
- Three inspections (footing, framing, and final) performed by an FHA Roster Inspector on form HUD-92051, *Compliance Inspection Report (for Modular Housing*, footing and final only); **or**

Inspections or Warranties for Maximum Financing: Site Built Housing or Condominiums (cont.)

Proposed Construction

- Three inspections (footing, framing and final) performed by the local authority with jurisdiction over the property (for Modular Housing, footing and final only); **or**

- A 10-year warranty and final inspection issued by:
  - The local authority with jurisdiction over the property; or
  - An FHA Roster Inspector.

Inspections or Warranties for Maximum Financing: Site Built Housing or Condominiums (cont.)

Under Construction

The Mortgagee must obtain:

- Copies of the building permit and CO (or equivalent); **or**
- A 10-year warranty and final inspection issued by:
  - The local authority with jurisdiction over the property; or
  - An FHA Roster Inspector.

Inspections or Warranties for Maximum Financing Site Built Housing or Condominiums (cont.)

<u>Existing for Less than One Year (100% Complete)</u>

The Mortgagee must obtain:

- Copies of the building permit and CO (or equivalent); **<u>or</u>**
- A 10-year warranty and final inspection issued by:
  - The local authority with jurisdiction over the property; or
  - An FHA Roster Inspector.
- An appraisal evidencing property is 100 percent complete.

Inspections or Warranties for Maximum Financing: Manufactured Housing

<u>Proposed Construction</u>

The Mortgagee must obtain:

- Two inspections (initial and final) performed by an FHA Roster Inspector; or
- Two inspections (initial and final) performed by the certifying engineer or architect; **<u>or</u>**
- A 10-year warranty and final inspection issued by:
  - An FHA Roster Inspect;
  - Certifying engineer; or
  - Architect.

Inspections or Warranties for Maximum Financing: Manufactured Housing

<u>Under Construction</u>

The Mortgagee must obtain:

- A 10-year warranty; <u>**and**</u>
- Final inspection issued by an FHA Roster Inspector; or
- Certifying engineer; or
- Architect.

Inspections or Warranties for Maximum Financing: Manufactured Housing (cont.)

<u>Existing for Less than One Year (100% Complete)</u>

- The Mortgagee must obtain:
  - A 10-year warranty; **<u>and</u>**
  - Final inspection issued by;
    - The FHA Roster Inspector ;or
    - Certifying engineer; or
    - Architect.

- HUD will only accept inspections by a local building authority on Manufactured Housing properties if there are no FHA Roster Inspectors available to perform these inspections. The Mortgagee must document efforts to obtain an FHA Roster Inspector.

Additional Required Documentation for Maximum Financing: All New Construction Types and All Property Types

Additional Required Documentation

- The Mortgagee must obtain and include the following documents in the case binder:
  - Form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*; and
  - Form HUD-92544, *Warranty of Completion of Construction*.

Additional Required Documentation (cont.)

- Evidence that the property was pre-approved or the 10-year warranty plan:
  - Evidence of pre-approval is the Early Start Letter or copy of building permit issued by local authority prior to start of construction; and
  - For a 10-year warranty plan, evidence of acceptance or enrollment in the plan is required.
    - The application alone is not acceptable.

Required Inspections for Maximum Financing: All New Construction Types and All Property Types

New Construction: Required Inspections

- Wood Infestation Report, unless the Property is located in an area of no-to-slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list.
- Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee.
- If the building is constructed with steel, masonry, or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed.
- The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.

New Construction: Required Inspections (cont.)

- Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the proposed Property is treated with a soil chemical termiticide.

- The Mortgagee must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.

- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

New Construction Financing: LTV Limit

- Properties that are Under Construction or Existing for Less than One Year are limited to a **90 percent LTV unless** they:
  - Meet the Pre-Approval requirements; **or**
  - Are covered with a HUD-accepted insured 10-year protection plan; **and**
  - Meet the required documentation for maximum financing.

New Construction Financing: LTV Limit (cont.)

- For a Mortgage with an LTV of **90 percent or less**, the Mortgagee must obtain:
  - Form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*;
  - Final inspection or appraisal, if the Property is 100 percent complete; and
  - Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's Termite Treatment Exception Areas list.

New Construction Financing: 90% or Less

- Form HUD-NPMA-99-A, *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction.
- If the building is constructed with steel, masonry, or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed.
- The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.

New Construction Financing: 90% or Less (cont.)

- Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the proposed Property is treated with a soil chemical termiticide.
- The Mortgagee must reject the use of post-construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

Documents to be Provided to Appraiser at Assignment

- The Mortgagee must provide the appraiser with a fully-executed Form HUD-92541, *Builder's Certification of Plans, Specifications, & Site:*
  - Signed and dated no more than 30 Days prior to the date the appraisal was ordered.

Documents to be Provided to Appraiser at Assignment (cont.)

Stage of Completion	Documents Needed to Be Provided
Properties 90 Percent Completed or Less.	Floor plans, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of the finished house.
Properties Greater than 90 Percent, but Less than 100 Percent completed.	A list of components to be installed or completed after the date of inspection.

New Construction: Mortgagee Review of Appraisal

- New Construction, like existing construction, must meet HUD's:
  - Minimum Property Requirements (MPR); **and**
  - **Minimum Property Standards (MPS)**.

- HUD Form 92541 requirements.

- SF Handbook, Section II.B

Mortgagee Review of Site Considerations

- **Environmental**
  - The Mortgagee must require corrective work to mitigate any condition that arises during construction that may affect the:
    - Health and safety of the occupants;
    - Property's ability to serve as collateral; and
    - Structural soundness of the improvements.

Mortgagee Review of Site Considerations (cont.)

- **<u>Operating Oil or Gas Wells</u>**
  - If a proposed or newly constructed dwelling is located within 75 feet of an operating oil or gas well, the Mortgagee must:
    - Reject the property unless mitigation measures are completed.

Mortgagee Review of Site Considerations (cont.)

- **Slush Pits**
  - If a property is Proposed Construction near an active or abandoned Slush Pit:
    - The appraiser must require a survey to locate the pit; and
    - The Mortgagee is to assess any impact on the subject property.

Mortgagee Review of Site Considerations (cont.)

- **Special Airport Hazards**
  - If a proposed or newly constructed property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the property for insurance.

Mortgagee Review of Site Considerations (cont.)

- **<u>Special Airport Hazards</u>**
  - A proposed or newly constructed property located in Accident Potential Zone I at military airfields may be eligible for FHA mortgage insurance:
    - Provided that the Mortgagee determines that the property complies with Department of Defense guidelines.

Mortgagee Review of Site Considerations

- **Flood Hazard Areas**
  - The Mortgagee must reject the property if any portion of the property improvements is located within a Special Flood Hazard Area (SFHA) (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) unless:

Mortgagee Review of Site Considerations (cont.)

- **Flood Hazard Areas (cont.)**
  - A final Letter of Map Amendment (LOMA) or Final Letter of Map Revision (LOMR) that removes the property from the Special Flood Hazard Area is obtained from the Federal Emergency Management Agency (FEMA); **or**
  - The Mortgagee obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 81-31), that documents that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation, in compliance with the NFIP criteria.

Mortgagee Review of Site Considerations (cont.)

- **Flood Hazard Areas (cont.)**
  - The Mortgagee must include the LOMA, LOMR, or flood elevation certificate with the case when it is submitted for endorsement.
  - The Mortgagee must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the property remains located within an SFHA.
  - A manufactured home in a flood zone is not permitted even with insurance.

Mortgagee Review of Site Considerations (cont.)

- **Individual Water Supply Systems (Wells)**
  - The Mortgagee must ensure that new wells are:
    - Drilled;
    - No less than 20 feet deep; **and**
    - Cased.

Mortgagee Review of Site Considerations (cont.)

- **<u>Individual Water Supply Systems (Wells) (cont.)</u>**
  - Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.
  - A well located within the foundation walls of new construction is not acceptable except in arctic or sub-arctic regions.

Mortgagee Review of Site Considerations (cont.)

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

Mortgagee Review of Site Considerations (cont.)

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

Mortgagee Review of Site Considerations (cont.)

- **<u>Shared Well</u>**
  - A shared well is permitted only if the Mortgagee obtains evidence that:
    - It is not feasible to serve the housing by an acceptable public or community water system; **and**
    - The housing is located in an area other than in an area where local officials have certified that installation of public or adequate community water and sewer systems are economically feasible.

Sales Comparison Approach: Comparable Selection

- For properties in new subdivisions, the selected comparable sales must include:
  - At least one sale outside the subdivision or project; **and**
  - At least one sale from within the subdivision or project.

Completion of Construction

- Regardless of the inspection process used, the Mortgagee must certify on Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*, that the property is 100 percent complete and meets HUD's MPR and MPS.

Construction-to-Permanent

Construction-to-Permanent Definition

- A Construction-to-Permanent Mortgage combines the features of a construction loan (a short-term interim loan for financing the cost of construction) and the traditional long-term permanent residential Mortgage with a single Mortgage closing prior to the start of construction.

Borrower Eligibility

- The Borrower must have contracted with a builder to construct the improvements.
- The builder must be a licensed general contractor.
- The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

Property Eligibility

- The Borrower must be purchasing the land:
  - At the closing of the construction loan; **or**
  - Have owned the land for **six months or less** at the **date of case number assignmen**t.

Calculating Maximum Mortgage Amount

- The maximum mortgage amount is calculated using the appropriate purchase LTV percentage of the lesser of:
  - The appraised value; **or**
  - The documented Acquisition Cost.

Calculating Maximum Mortgage Amount

- **<u>Documented Acquisition Cost</u>**
  - The builder's price to build;
  - Borrower-paid extras over and above the contract specifications and/or out-of- pocket expenses not included in the builder's price to build;
  - Cost of the land if already owned, or with an acceptable gift documentation, the appraised value of the land may be used instead of the cost; **and**
  - Closing costs associated with any interim financing of the land.

Calculating Maximum Mortgage Amount (cont.)

- If the land is being purchased from the builder:
  - The cost must be included in the builder's price to build.

- If the property being constructed is Manufactured Housing:
  - The builder's price to build must include the sum of the cost of the unit(s) and all on-site installation costs.

Minimum Required Investment (MRI)

- The Borrower may utilize any cash investment in the Acquisition Cost of the property to satisfy the Minimum Required Investment (MRI).

Required Documentation

- The Mortgagee must document the cash investment was from an acceptable source of funds in accordance with TOTAL or manual underwriting requirements as applicable.
- The Mortgagee must document the cost and date of purchase of the land.
- If already owned:
  - The Mortgagee must obtain the Closing Disclosure or similar legal document.

Required Documentation (cont.)

- The Mortgagee must document any:
  - Borrower-paid extras, over and above the contract specifications; and
  - Out-of-pocket expenses not included in the builder's price to build by obtaining evidence funds were derived from an acceptable source.
- The Mortgagee must obtain an itemization of the extras and expenses, and the cost of each item.

Mortgage Interest Rate

- During the construction period, the interest rate may be variable.
- The Mortgagee must qualify the Borrower for the mortgage at the maximum rate at which the permanent mortgage may be set.

Mortgage Interest Rate (cont.)

- The Mortgagee and the Borrower must enter into an agreement that:
  - Documents the range in which the interest rate may float during construction;
  - Documents the point of interest rate lock-in;
  - Specifies that the permanent mortgage will not exceed a specific maximum interest rate; and
  - Permits the Borrower to lock in at a lower rate, if available and if they have not already locked in a rate.

Required Documentation for Closing in Addition to Standard Documents

Document	Purpose
Construction Rider and Construction Loan Agreement	Provides that all special construction terms end when the construction loan converts to a permanent Mortgage. After conversion, only the permanent Mortgage terms (based on standard documents) continue to be effective, making the permanent Mortgage eligible for FHA mortgage insurance.

Required Documentation for Closing in Addition to Standard Documents (cont.)

Document	Purpose
Disclosure	The Mortgage is not eligible for FHA mortgage insurance until after a final inspection, or the issuance of a certificate of occupancy by the local governmental jurisdiction, whichever is later.

Required Documentation for Closing in Addition to Standard Documents (cont.)

Document	Purpose
Builder Contract Agreement	Executed contract agreement between the builder and the Borrower, including the contractor's price to build.

Required Documentation for Closing in Addition to Standard Documents (cont.)

Document	Purpose
Actual Costs of Construction	The actual costs of construction where the Borrower is acting as the general contractor.
Land Record	Land acquisition or land ownership
Payoff Statement and Evidence of the Actual Payoff	A payoff statement and evidence of the actual payoff if mortgage proceeds are used to purchase or pay off debt on the land.

Escrow Account

- At closing, after funds are disbursed to cover the purchase of the land, the balance of the mortgage proceeds must be placed in an escrow account to be disbursed as construction progresses.
- The Mortgagee must obtain the Borrower's written authorization for each draw prior to disbursing funds to the contractor.
- After completion of construction, the construction escrow account must be fully extinguished, and any remaining funds must be applied to the outstanding principal balance of the permanent Mortgage.

Required Documentation for Endorsement

- If the LTV **exceeds 90 percent**, the Mortgagee must comply with Inspections or Warranties for Maximum Financing **and** Required Documentation for Maximum Financing.
- If the LTV **is 90 percent or less**, the Mortgagee must comply with the documentation requirements found in the New Construction Financing LTV Limit.

Required Documentation for Endorsement (cont.)

- The following documentation is required for mortgage insurance endorsement:
  - The Mortgagee must obtain a title update after conversion to the permanent mortgage to show that the mortgaged property is free and clear of all liens other than the Mortgage.
  - The Mortgagee must verify and document that the construction was fully drawn down and that any remaining funds were used to pay down the principal balance on the permanent Mortgage.

Endorsement and Start of Amortization

- The Mortgage must be endorsed within 60 days of the final inspection or issuance of the Certificate of Occupancy (CO), whichever is later.

- Amortization of the permanent Mortgage must begin no later than the first of the month following 60 days from the date of the final inspection or issuance of the CO.

Building on Own Land

Building on Own Land

- Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the Borrower for **greater than 6 months** from case number assignment.

Borrower Eligibility

- The Borrower must have contracted with a builder to construct the improvements.
- The builder must be a licensed general contractor.
- The Borrower may act as the general contractor, but only if the Borrower is also a licensed general contractor.

Maximum Mortgage Amount

- The Mortgagee must use the lesser of the Property Value or the documented Acquisition Cost to determine the Adjusted Value.
- If the Property being constructed is Manufactured Housing, the builder's price to build must include the sum of the cost of the unit(s) and all on-site installation costs.

Documented Acquisition Cost

- Builder's price or the sum of all subcontractor bids and materials;
- Value of the land as shown in the site value of the appraisal; and
- Interest and other costs associated with a construction loan obtained by the Borrower to fund construction.

Minimum Required Investment (MRI)

- The Mortgage is calculated using the purchase LTV limits.
- The Closing Disclosure or similar legal document may be prepared as a refinance transaction.
- The Mortgagee must document any Borrower required funds to close are from an acceptable source of funds in accordance with TOTAL or manual underwriting requirements, as applicable.

Minimum Required Investment (MRI) (cont.)

- If the land was given as a gift to the Borrower, the Mortgagee must verify that the donor was not a prohibited source.
- The Mortgagee must obtain standard gift documentation for any gift of land.

Additional Equity in the Property

- The Borrower may not receive cash back from the additional equity in the property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price.

- The Mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

Required Documentation

- The Mortgagee must comply with general New Construction requirements:
  - SF Handbook, Section II.A.8.i
- The Mortgagee must document the date of purchase of the land by obtaining the Closing Disclosure or similar legal document.

Weatherization

Weatherization: The Basics

- The weatherization product permits the Borrower to finance the cost of eligible energy-related weatherization improvements, in conjunction with a purchase or refinance.

- The Borrower may not receive cash back from the mortgage transaction.
  - If an excess exists, funds must be used to pay down the Mortgage principal.

Eligible Programs and Transaction Types

- Weatherization improvements may be financed in conjunction with the following:
  - Section 203(b); purchase or no cash-out refinance;
  - Section 203(h) Mortgage Insurance for Disaster Victims; and
  - Energy Efficient Mortgages (EEMs) on existing properties.
- For financing of weatherization under the 203(k) Rehabilitation Mortgage Insurance Program, refer to 203(k) Rehabilitation Mortgage Insurance Program policy.

Eligible Property Types

- Weatherization improvements may be used on the following property types:
  - Existing properties (one- to four-units);
  - Condominiums (one unit); and
  - Manufactured Housing (single unit).

Eligible Weatherization Items

- Eligible energy-related weatherization items include:
  - Air sealing (including weather stripping doors, caulking window and plumbing penetrations);
  - Insulation (attic, floors, walls, basement);
  - Duct sealing and insulation;
  - Smart thermostats and equipment controls; and
  - Windows and doors.

Maximum Allowable Cost of Energy-Related Items

Maximum Allowable Cost of Energy-Related Weatherization Items that can be Financed is:	Appraisal Requirements/Value Determination	Inspection Requirements
$2000/Not to Exceed Actual Cost	Not Required	Not Required
$3500/Not to Exceed Actual Cost	Value Determination Made by FHA Appraiser of Direct Endorsement Underwriter	Not Required
No Limit/Not to Exceed Actual Cost	Value Determination Made by FHA Appraiser of Direct Endorsement Underwriter	Onsite Inspection by FHA Roster Fee Inspector or DE Staff Appraiser

Required Documentation and Maximum Mortgage Amount Calculation

- The Mortgagee must document the cost of work, including the weatherization materials and labor.
  - Borrower labor (sweat equity) is not eligible towards the cost of work to be financed.

- When determining the Adjusted Value, the dollar limit of the energy-related weatherization items may be added to both the sales price and the Property Value.

Escrows

- The Mortgagee must establish an escrow account for the remaining costs of the energy improvements if the installation of weatherization items is not complete by the time of closing for all Mortgages on existing Properties, except 203(k).
- The escrow account must be established in accordance with the Repair Completion Escrow Requirements.
- If the costs of the energy improvements and weatherization items are part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy improvements and weatherization items must be included in the rehabilitation escrow account.

Escrows (cont.)

- Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.
- Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).
- After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed, **effective for case numbers assigned on or after October 31, 2016.**

Mortgagees Assurance of Completion

- When funds to complete weatherization improvements are escrowed:
  - The Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for weatherization improvements has been established.

Time of Completion for Weatherization Items

- Installation of weatherization improvements must be completed within:
  - 30 Days of the mortgage Disbursement; or
  - 90 Days of the mortgage Disbursement if the improvements are part of an energy package for an EEM.
- The Mortgagee must apply the remaining weatherization escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames.

Inspection

- The Mortgagee or their agent must inspect the weatherization items or obtain evidence from a local authority that the system was installed in accordance with local requirements.

Solar and Wind Technologies

Solar and Wind Technologies

- The Solar and Wind Technologies policy allows the Mortgagee to increase the Base Loan Amount:
  - To cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the property; and
  - At the time of a purchase or refinance.

Eligible Property Types

- The following property types are eligible for the Solar and Wind Technologies policy:
  - One- to four-unit properties; and
  - Manufactured Housing (one unit).
- Condominium units are **ineligible** for Solar and Wind Technologies.

Eligible Programs and Transaction Types

- Costs for new solar and wind energy systems may be added to an FHA-insured base Mortgage, for the following programs:
  - Section 203(b);
    - Purchase transaction;
    - Rate and Term refinance and Simple Refinance;
  - Section 203(h) Mortgage Insurance for Disaster Victims; and
  - Section 203(k) Rehabilitation Mortgage Insurance Program.

Eligible Solar and Wind Technologies

The acceptable solar and wind technologies are:

- Active and Passive solar systems; and
- Wind driven systems.

<u>Photovoltaic Systems</u>

These photovoltaic systems may be referred to as a solar array, solar hot water heater, or PV systems. These systems must:

- Provide electricity for the residence; **<u>and</u>**
- Meet applicable fire and electrical code requirements.

Wind Turbine for Residential Properties

- A wind turbine must:
  - Have a performance and safety certification from The International Electrotechnical Commission (IEC) standards from an accredited product certification body; **or**
  - The American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); **and**

Wind Turbines (cont.)

- Have a nameplate capacity of no more than 100 kilowatts; **and**
- Be installed by:
  - An installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification; **or**
  - Small wind turbine installation training from an accredited training organization.

Title to Systems

- The Borrower must own, not lease, solar or wind energy systems in order for the system be considered eligible improvements.

- Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs:
  - 24 CFR 203.41.

Maximum Mortgage Amount: Purchase

- The Mortgagee must compute the Adjusted Value by using the purchase price, excluding the cost and installation of the Solar or Wind Technology system, and the Property Value, excluding the cost and installation of the Solar or Wind Technology system.

Maximum Mortgage: Refinance

- The Mortgagee must compute the Adjusted Value by using the Property Value without the cost and installation of the solar or wind technology system.

Maximum Mortgage Amount Calculation

- The Mortgagee must add the lesser of:
  - The cost and installation of the solar or wind technology system; **or**
  - 20% of the Property Value to the Base Loan Amount.
- The Mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

Nationwide Mortgage Limit Purchase and Refinance

- The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographical area by no more than 20 percent.

NOTE: *See Maximum Mortgage Amount*

Required Documentation and Cash Out

- The Mortgagee must document the cost of work:
  - Including the energy systems' materials and labor.
- The Borrower may not receive cash back from the mortgage transaction.
- If an excess exists the Mortgagee must apply these funds to the principal Mortgage balance.

Escrows

- The Mortgagee must establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.
- If the energy package is part of a 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the rehabilitation escrow account.

Escrows (cont.)

- Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the Mortgage principal.
- Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).
- After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed. **(Effective for case numbers assigned on or after October 31, 2016)**

Mortgagee's Assurance of Completion

- When funds to complete the solar or wind energy systems are escrowed:
  - The Mortgagee must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the escrow for the solar or wind improvements has been established.

Time of Completion and Inspection

- Installations of solar and wind energy systems must be completed within 120 days of the mortgage Disbursement.
- The Mortgagee must apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal, if the work is not completed within the required time frames.
- The Mortgagee or their agent must:
  - Inspect the solar and wind improvement; **or**
  - Obtain evidence from a local authority that the system was installed in accordance with local code.

Assumptions

Assumptions: The Basics

- Assumption refers to the transfer of an existing mortgage obligation from an existing Borrower to the assuming Borrower.
- Case binder stacking order:
  - Specialized Product Eligibility Documents are to be located on the Left Side of the case binder.
- Refer to SF Handbook, Section II.A.7.d

Occupancy Eligibility Requirements

Original Mortgage was closed prior to December 15, 1989:	Original Mortgage was closed on or after December 15, 1989:
The assuming Borrower may assume the mortgage as a: • Principal Residence; • HUD-approved Secondary Residence; or • Investment Property.	The assuming Borrower ***must*** intend to ***occupy*** the property as a: • Principal Residence; or • HUD-approved Secondary Residence.

Occupancy Eligibility Requirements (cont.)

Occupancy	Maximum Loan-to-Value (LTV)
Principal Residence	May assume 100% of outstanding principal balance of the Mortgage.
HUD-approved Secondary Residence	85% of the original appraised value or new Property Value may be used to determine compliance with 85% LTV limitation.
Investment	75% of either the original appraised value or new Property Value may be used to determine compliance with 75% LTV limitation.

Initiating Processing of an Assumption

- Mortgagees must complete form HUD 92210, *Request for Credit Approval of Substitute Mortgagor*, or equivalent form to document its processing of an assumption.

- Completion of such form does not formally release the original Borrower from personal liability for the Mortgage Note.

Release of Liability

- The Mortgagee must prepare form HUD 92210.1, *Approval of Purchaser and Release of Seller*.
  - This form releases the original owner when they sell by assumption to the assuming Borrower who executes an agreement to assume the Mortgage and pay the debt.

Assumption: Underwriting Review

- Assuming Borrowers must be underwritten in accordance with Origination through Post-Closing/Endorsement, Section of the SF Handbook, except for:
  - Ordering Case Numbers;
  - Ordering Appraisal;
  - Transferring Existing Appraisal;
  - Ordering Second Appraisal; and
  - Ordering an Update to an Appraisal.

Underwriting Review Exceptions

- Property Eligibility and Acceptability Criteria
- National Housing Act Statutory Limits
- Nationwide Mortgage Limits
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

Exceptions in Case of Transfer

- The Mortgagee may process an assumption without credit review of the assuming Borrower if the transfer is:
  - By devise or descent, or other circumstances in which the transfer cannot legally lead to exercise of the due-on-sale, such as a divorce in which the party remaining on title retains occupancy; and
  - The assuming Borrower can demonstrate that they have made the Mortgage payments for a minimum of six months prior to case number assignment.

Exception to MRI

- The assuming Borrower is not required to make a cash investment in the property.
- The assuming Borrower may assume 100% of the outstanding principal balance of the Mortgage:
  - Subject to the restrictions on LTV ratios for Investment Properties and HUD-approved Secondary Residences.

Responsibility of Direct Endorsement (DE) Underwriter

- The holding or servicing Mortgagee is responsible for the underwriting review.
- The review must be completed by a Direct Endorsement (DE) underwriter registered by the Mortgagee in FHA Connection (FHAC).
- Where the holding or servicing Mortgagee does not originate Mortgages or is not approved under the DE program, it may have an Authorized Agent perform the review.

Use of TOTAL Mortgage Scorecard for Assumptions

- The TOTAL Mortgage Scorecard must not be used for assumptions.
- The DE underwriter **must manually underwrite** the assumption.

Allowable Fees and Charges

Processing Fee and Other Costs

- Mortgagees may charge the assuming Borrower a maximum fee of $500 for the processing of an assumption.

- Mortgagees may charge the assuming Borrower the actual costs incurred for credit reports and other expenses.

Interested Party Contributions

- The seller or other Interested Parties may make contributions toward the assuming Borrower's actual closing costs consistent with the requirements in the Interested Party Contributions Section of SF Handbook.

HUD Real Estate Owned Purchasing

HUD REO Property

- A **HUD Real Estate Owned (REO) Property** refers to a one-to-four unit residential Property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured Mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee.

HUD REO Property: Purchase Programs

A Borrower may purchase a HUD REO property by using one of the following HUD programs, depending on the **as-is condition** of the HUD REO property.

- **Section 203(b)**: The Property meets HUD's Minimum Property Requirements (MPR).
- **Section 203(b) With Repair Escrow:** The Property does not meet HUD's MPR, but if repairs of no more than $5,000 are completed, the Property would meet HUD's MPR.
- **Section 203(k):** The Property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow, and is eligible for FHA-insured financing only under Section 203(k).

Special Sales Incentives: Good Neighbor Next Door

Permits a Borrower who is a…	To Purchase a specifically designated HUD REO Property…
• Full-time Law Enforcement Officer; • Teacher, • Firefighter; or • Emergency Medical Technician.	• Located in a HUD-designated Revitalization Area; • With FHA-insured financing; • At a 50 percent discount from the purchase price.

Special Sales Incentives: Good Neighbor Next Door (cont.)

Under the Good Neighbor Next Door (GNND) program, the Borrower:

- Must meet HUD's requirements;
- Must occupy the property as principal residence; and
- May include in the Mortgage amount customary and reasonable closing costs.

- May be processed as Section 203(b), Section 203(b) with Repair Escrow, or Section 203(k).

GNND: Sales Contract

- Where a Borrower is approved for the GNND sales incentive, the following must be completed in the sales contract:
  - Line 8 will specify the discount that will be applied to the purchase price on Line 3.
  - Line 4 will specify a cash downpayment of $100, if applicable.

GNND: Additional Requirements for FHAC Insuring Application

- If insured under Section 203(b) with Repair Escrow, the Mortgagee must:
  - Check "Yes" in the Escrow Data field;
  - Enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field; and
  - Comply with the Repair Completion Escrow Requirement.

- Mortgagees must enter the discounted purchase price as the "sales price".

GNND: Additional Requirements for FHAC Insuring Application

- Mortgagees must complete information regarding secondary financing by entering:
  - "Yes" in the Secondary Financing field;
  - The amount of the discount by which the sales price was reduced in the Amount field;
  - "Federal Government" in the Source of Funds field; and
  - "HUD GNND" in the Source Name field.

Special Sales Incentives: $100 Down

- **$100 Down** sales incentive permits a Borrower to purchase a HUD REO Property with FHA-insured financing with a minimum downpayment of $100.
- $100 down purchases may also be processed as Section 203(b), Section 203(b) with Repair Escrow, or Section 203(k).
- In the **sales contract**, where the Borrower has been approved for the $100 Down sales incentive, the amount of the cash downpayment specified on Line 4 will be $100.
- In **FHAC**, the Mortgagee must enter "**Yes**" in the $100 REO Down Payment Program field.

Sales Contract

- The Mortgagee must obtain form HUD-9548*, Sales Contract Property Disposition Program*, and any applicable addenda, which will establish the purchase price, price discount, eligibility for GNND, and eligibility for $100 Down, and meet the requirements for the Sales Contract.

- Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, the Mortgagee must determine the eligibility of the Property, the eligibility of the Borrower, and the specific Insured HUD REO Property Purchase Program that must be used to finance the purchase.

- Contributions by HUD toward the Borrower's closing costs are not defined as Interested Party Contributions (TOTAL or Manual) or Inducements to Purchase (TOTAL or Manual).

Sales Contract

HUD Contract Line	Description
Line 3	The purchase price.
Line 4	Specifies the Insured HUD REO Property Purchase Program under which the Borrower is applying, the downpayment, and the Mortgage amount.
Line 5	The amount of closing costs that HUD will pay on behalf of the Borrower.
Line 6a and 6b	Represent the sales commissions HUD will pay to the selling and listing broker.
Line 8	Specifies the type of Purchaser and the percent of discount that will be applied to the purchase price.

Ordering Case Numbers

- For **Section 203(b) and Section 203(b) With Repair Escrow,** Mortgagees must order case numbers for Insured HUD REO Property Purchases in accordance with the Ordering Case Numbers Section of the SF Handbook.

- For **Section 203(k),** Mortgagees must order case numbers for Insured HUD REO Property Purchases in accordance with Case Number Assignment Data Entry Requirements Section of the SF Handbook.

- For all HUD REO purchase transactions, mortgagees must select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO Property in the Prior Case Number field.

Appraisals

- Mortgagees must order appraisals in accordance with the requirements in the SF Handbook for Ordering Appraisals and Appraisals for Standard 203(k) and Limited 203(k), whichever is applicable.

- Mortgagee must review the appraisal and property conditions in accordance with the requirements of the Underwriting the Property Section of the SF Handbook.

Occupancy Types

Occupancy Type	Program	
Principal Residence	May use 203(b), Section 203(b) with Repair Escrow, and Section 203(k).	
Investment Property	**Eligible Nonprofit or State or Local Government Agency Borrower**	May use Section 203(b), Section 203(b) with Repair Escrow, and Section 203(k).
	Investor	May **only** use Section 203(b) or Section 203(b) with Repair Escrow.

Maximum Mortgage Amounts: 203(b)

Mortgagees must calculate the maximum mortgage amounts in accordance with the requirements of Calculating Maximum Mortgage Amounts for Purchases, using the applicable LTV noted below, **subject to LTV limitations based on Borrower's credit score.**

Owner-Occupant Borrower	• The maximum LTV is 96.5 percent.
Eligible Nonprofit or State or Local Government Agency Borrower	• The maximum LTV is 96.5 percent. • Mortgagees must calculate the discounted purchase price in accordance with the requirements for calculating the discounted purchase price for GNND transactions. • The discounted purchase price must be used when determining the Adjusted Value.
Investor	• The maximum LTV is 75.0 percent.

Maximum Mortgage Amounts: Section 203(b) With Repair Escrow

- Mortgagees must initially calculate the Mortgage amount in accordance with the requirements for Section 203(b).
- Mortgagees must add to the amount resulting from that calculation the amount of an escrow account for the completion of repairs after closing.
- The maximum escrow amount must be based on:
  - The sum of the repairs required to meet the intent of HUD's MPR; plus
  - A 10 percent contingency.
- The total escrow amount, including the 10 percent contingency, must not exceed $5,500.
- The Mortgagee must comply with the Repair Completion Escrow Requirements.

Maximum Mortgage Amounts: Good Neighbor Next Door-Discounted Purchase Price

- Mortgagees must calculate the discounted purchase price and use that amount as the purchase price in determining the Adjusted Value for a 203(b) transaction or the Adjusted As-Is Value for a 203(k) transaction.

- The discounted purchase price is calculated by taking the:
  - Contract sales price on Line 3 of form HUD-9548;
  - Minus the discount percentage on Line 8 of form HUD-9548;
  - Plus sales commissions from Line 6 of form HUD-9548; and
  - Plus any Borrower-paid closing costs (including prepaid expenses).

Maximum Mortgage Amounts: GNND and $100 Down Program

- When calculating the maximum mortgage amount for a Section 203(b) or Section 203(b) With Repair Escrow loan using the GNND or $100 Down programs:
  - **For Section 203(b)**, Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the Adjusted Value.
  - **For Section 203(b) With Repair Escrow**, Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed $5,500.

Maximum Mortgage Amounts: 203(k)

Owner-Occupant Borrower	• Mortgagees must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amounts for Purchases.
Eligible Nonprofit or State or Local Government Agency Borrower	• Mortgagees must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amounts for Purchases. • Mortgagees must calculate the discounted purchase price in accordance with the requirements for calculating the discounted purchase price for GNND transactions. • The discounted purchase price must be used when determining the Adjusted As-Is Value.
Investor allowed.	

Maximum Mortgage Amounts: GNND and $100 Down on a 203(k)

The maximum mortgage amount that FHA will insure on a GNND 203(k) purchase is the lesser of:

- The Adjusted As-is Value, plus:
  - Financeable Repair and Improvement Costs, for Standard 203(k) or Limited 203(k);
  - Financeable Mortgage Fees, for Standard 203(k) or Limited 203(k);
  - Financeable Contingency Reserves for Standard 203(k) or Limited 203(k);
  - Other purchaser-paid closing costs, including pre-paid expenses; and
  - Financeable Mortgage Payment Reserves, for Standard 203(k) only;
  - minus $100; or
- 110 percent of the After Improved Value (100 percent for condominiums), minus $100; or
- The Nationwide Mortgage Limits.

Additional Section 203(b) With Repair Escrow Requirements

- The Mortgagee must check "Yes" in the Escrow Data field.
- The Mortgagee must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.
- The Mortgagee must comply with the Repair Completion Escrow requirement.

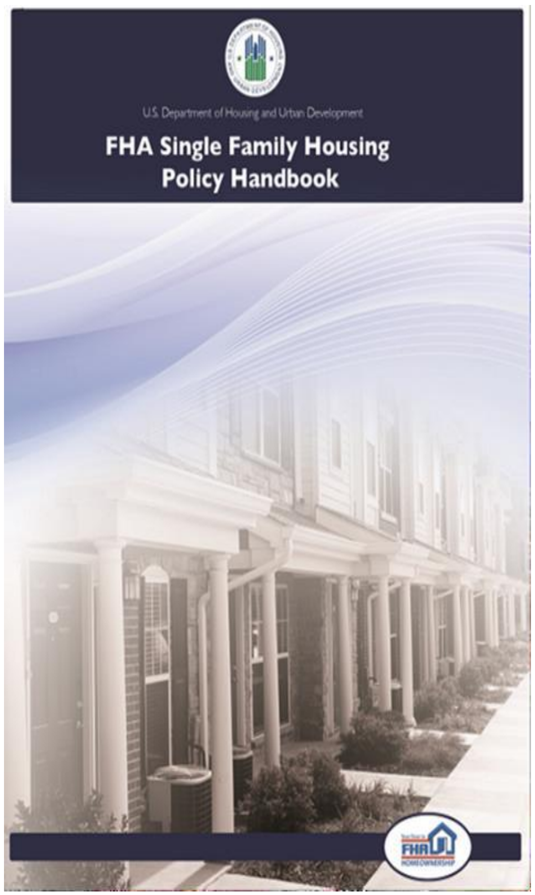
Helpful Links

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

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

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

Single Family Housing Policy Handbook 4000.1 Training Webcast Series



Thank you for attending.