

Welcome to the Basic Income and Assets Underwriting Webinar

Scheduled Start: 9:00 AM Mountain Time
- We will be underway shortly -

All audio for this webinar is through your computer – there is no separate call-in number

Please ensure that you are able to receive sound through your computer and that your speakers are un-muted

If you have any technical or audio issues – please review the **Support for Technical Issues** document by clicking on the **Supporting Material Button** located just below this screen

Important Things to Know

■ Question and Answer Format

- Utilize “Ask a Question” button on your screen
- Audio/Technology questions utilize the “Help” button
- Questions will be compiled and a FAQ document posted with the archived webinar

■ Supporting Material

- A copy of this Power Point presentation
- A PDF version of the presentation
- Frequently Asked Questions related to technical issues (PDF)

If you have audio issues or the slides stop advancing – simply refresh or reload the page displaying the webinar

Important Things to Know

■ Web Site Pop-ups During Presentation

- Several helpful web sites will be provided to you for bookmarking during the presentation. You will need to disable your pop-up blocker to receive this information

■ Archive Version (POP-UP)

<http://www.hud.gov/offices/hsg/sfh/talk/parc/phiarch.cfm>

Where to Get More Information

FHA Frequently Asked Questions (**Pop-Up**)

- <http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ>
- A web site containing almost 1,300 questions and answers about FHA programs, underwriting and processing.
- Searchable by key word and category.

Where to Get More Information

FHA Resource Center

TELEPHONE

1-800-CALLFHA (1-800-225-5342)

Available Monday-Friday from 8:00 – 8:00 (Eastern Time)

E-MAIL

ANSWERS@HUD.GOV

Available 24 hours a day – 7 days a week!

Where to Get More Information

www.hud.gov/fha

The main web site for the latest news on FHA programs

<http://www.hud.gov/offices/adm/hudclips/index.cfm>

HUDCLIPS - the source for FHA policy documents - handbooks, mortgagee letters and notices

Presenters from the Denver Homeownership Center

- Becky Shade
- Pavlina Kusnierz
- Laura Arundel

INCOME/ EMPLOYMENT

Handbook 4155.1 Chapter 1 Section B

Handbook 4155.1 Chapter 4 Sections D & E

Mortgagee Letter 12-03

Mortgagee Letter 12-15

Stability of Income

- Stable
 - Dependable
 - How long received
 - Constant/consistent
- Reliable
 - Expected to continue for at least 3 years
- Sufficient
 - Enough to meet all monthly debts and obligations



Effective Income

- Income must be:
 - Verified for the most recent 2 years
 - Documented

- Income may not be considered if:
 - It cannot be verified
 - Is not considered stable
 - Is unlikely to continue

2nd Job

- Mr. Jones has worked two jobs for the past 2 years. He works for QRS Freight full time and Barby's Restaurant part-time for the past 1 1/2 yrs. Prior to Barby's Restaurant, he worked for McDribbles Restaurant for 1 1/2 years. Which one of the following statements is true:

Employment Documentation

- Standard Employment Documentation
 - Written Verification of Employment
 - Most recent pay
- Alternative Employment Documentation
 - Pay stub(s) covering the most recent 30 day period
 - IRS W-2 forms from the previous two years
 - Telephone verification from current employer
 - Signed IRS form 4506

Base Income

- Salary
- Hourly
- Part-time employment
 - Primary job but less than 40 hours a week
- Seasonal
 - School football coach
 - Farm workers

Other Effective Income

- Overtime
- Bonus
- Commission

Other Effective Income

- Social Security Administration Income.
- Verify income with one of the following:
 - Federal Tax Returns;
 - Most recent bank statement evidencing receipt of income from the SSA;
 - Budget Letter/Benefits Letter from SSA; or
 - Borrower's Social Security Benefit Statement
- Document the Continuance of this Income with:
 - Copy of the last Notice of Award Letter which states the SSA's determination on the borrower's eligibility, or
 - Equivalent document that establishes award benefits to the borrower

Other Effective Income

- Alimony
- Child support

Other Effective Income

- Retirement
 - Pension and 401(k)
 - Annuities and IRA

4155.1 4.D. 2j and 4155.1 4.D. 5b

Non-Taxable Income

- Non-Taxable Income May Be “grossed-up”
- Percentage of gross-up may not exceed borrower’s actual tax rate
- No additional allowances for dependents
- Lender must document the percentage used
- If the borrower is not required to file a tax return, use a 25% tax rate

Rental Income

- Other real estate owned
 - Income must be reported on tax return (Schedule E) and only depreciation may be added back
- Roommate rental income is never acceptable
- Boarder (rental) income
 - Acceptable if declared on tax return and
 - Related by blood, marriage, or law

Converting Existing Home to a Rental

- Borrowers must have sufficient income to make both mortgage payments
- Rental income from vacated property cannot be considered except for
 - Relocation
 - *OR*
 - 75% LTV or less

2 – 4 Units (Purchase)

- Borrower must occupy one unit
- Rent received by the borrower is acceptable if the lender can document that the rental income is stable
- Projected rent of additional units only and not the owner-occupied unit(s) may be considered gross income

Scenario

Mr. Smith is purchasing a 3 unit property in California and will be occupying Unit #1. The appraisal reflects fair market rent amounts for: Unit #1 = \$800/mo, Unit #2 = \$700/mo, Unit #3 \$750/mo. What is the amount of Net Rental Income that can be used for qualifying? (Vacancy factor is 15%)

- A) \$1,275
- B) \$1,232.50
- C) \$1,912.50

Employed by Family-Owned Business

- Required documentation
 - Verification of employment
 - Pay stub(s)
 - Evidence borrower is not an owner of the business
 - Copies of personal tax return, or
 - Copies of business tax return showing ownership percentages

SELF-EMPLOYMENT
Handbook 4155.1, Chapter 4
Section D
Mortgagee Letter 2012-03

Self-Employment

- Two (2) or more years as self – employed
- Less than two (2) years and greater than one year may be considered
 - under certain circumstances
- Less than 12 months may not be considered

Self-Employment

Documentation:

- Most recent two (2) years signed and dated individual Federal tax return (all schedules)
- Year-to-date profit & loss statement and balance sheet – See ML 2012-03

Self-Employment

Documentation

- In addition, if the business is a Corporation, “S” Corporation or Partnership (LLC)
 - Most recent two years signed copies of Federal business income tax returns (all schedules)
 - Business credit report

Projected Income

- Projected or hypothetical income is not acceptable for qualifying purposes except
 - If a borrower will start a new job and has a guaranteed, non-revocable contract for employment scheduled to begin within 60 days of loan closing

Projected Income

- More than 60 days from closing, verify
 - Borrower will have sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the start of projected income

SOURCE OF FUNDS

Handbook 4155.1, Chapter 5 Section B
Mortgagee Letter 2012-03



FEDERAL HOUSING ADMINISTRATION
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Sources of Funds

- Checking/Savings
- Earnest money
- Cash saved at home
- Retirement
- Gift funds
- Loans
- Secondary financing
- Sale of existing home
- Sale of personal property

This is not
an all-
inclusive
list

Assets

- Checking and Savings
- Earnest money deposit
- Cash saved at home

Assets

- IRA
- Thrift Savings Plans
- 401K
- Keogh

Gifts

- Source(s) of Gift(s)
 - Relatives
 - Close friend with a clear interest in the borrower
 - Borrower's employer or labor union
 - Charitable or HUD approved non-profit organization
 - Governmental agency or public entity providing homeowner assistance

GIFTS

- GIFTS FROM A GOVERNMENT AGENCY OR INSTRUMENTALITY OF GOVERNMENT WHO IS ALSO THE **SELLER** OF SUBJECT PROPERTY IS NOW ALLOWED PER INTERPRETIVE RULE PUBLISHED EFFECTIVE 11/29/2012.
- 24 CFR Part 203 (Docket No. FR-5679-N-01)
- <http://portal.hud.gov/hudportal/documents/huddoc?id=5679N01FHAMinCaInvesInter.pdf>

Gift Letter

Gift letter must contain all 10 items

1. Name of donor
2. Address of donor (including city & state)
3. Telephone number of donor
4. Nature of donor's relationship to borrower(s)
5. Name of borrower(s)
6. Dollar amount of gift

Gift Letter

7. Signature of donor
8. Signature of borrower(s)
9. Must state no repayment is required
10. Must contain language asserting that the funds were not made available to the donor from any person or entity with interest in the sale of the property

Transfer of Gift Funds

- If funds were provided at closing
- If funds are deposited in borrower's account
- If funds are borrowed by the donor

Gift Funds

- Other sources
 - HUD – Approved Non-Profits
 - Charitable Organizations
- Documentation required:
 - Copy of approval for gift
 - HUD-1 to show receipt of the gift funds
 - Provide evidence of non-profit tax ID

Funds cannot come from a seller-funded entity

Sale of Existing Home or Personal Property

- Sale Proceeds (arms-length sale)
- Sale of Personal Property

RENT CREDIT

Borrower is renting subject property with an acceptable lease with option to purchase agreement with the seller and wishes to use credit for rental payments from the past 12 months towards his down-payment for purchase.

Is this an acceptable source of funds?

RENT CREDIT

- BORROWER'S MONTHLY RENTAL PAYMENTS
FOR 12 MONTHS : \$1200
- FAIR MARKET RENTS (FROM APPRAISAL): \$1000
- EXCESS ALLOWED TO BE USED TOWARD
DOWNPAYMENT: \$ 200/MO
- TOTAL ALLOWED FOR DOWNPAYMENT CREDIT: \$2400

Collateralized Loans

Acceptable source of funds

- Secured against borrower's tangible assets
- May be used to meet required investment
- Debt may be required to be included in debt ratio
- Evidence funds came from independent third party

SECONDARY FINANCING

Handbook 4155.1 Chapter 5 Section C

Mortgagee Letter 12-24

Mortgagee Letter 12-03

Mortgagee Letter 94-2



FEDERAL HOUSING ADMINISTRATION
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

www.hud.gov

SECONDARY FINANCING

- Secondary financing from a government agency or instrumentality of government who is also the seller of subject property is now allowed per interpretive rule published effective 11/29/2012.
- 24 CFR Part 203 (Docket No. FR-5679-N-01)
- <http://portal.hud.gov/hudportal/documents/huddoc?id=5679N01FHAMinCaInvesInter.pdf>

Secondary Financing

- Any type of financing that creates a junior lien against the property
 - Standard
 - Silent
 - Soft
 - Forgivable

Secondary Financing

- Government agencies
 - Federal
 - State
 - Local government (city and county) and
 - Non – profit organizations considered an instrumentality of government
- May provide 100% of required investment

Secondary Financing

- Non-profits (not considered instrumentality of government), private individuals and other organizations
 - Borrower must make their 3.5% down payment
 - Combined liens cannot exceed the applicable LTV
 - Periodic payments are level and monthly
 - No balloon payment before 10 years
 - No pre-payment penalty

Secondary Financing

- Family Member Lending
 - The family member may provide 100% of the funds needed by the borrower to close the transaction
 - Must document source and transfer of funds

Secondary Financing

- Borrowers 60 years of age or older
 - Must be a relative, close friend, employer or humanitarian institution
 - Cannot be the builder, seller, etc.
 - Principal amount of FHA and second note cannot exceed 100% value plus pre-pays
 - The interest rate on the second may not exceed the interest rate of the FHA mortgage

Disclaimer

- The purpose of this presentation is an overview of the subject matter with summation and explanation of recent changes in FHA policy. It introduces and explains, rather than supplants, official policy issued in Handbooks and Mortgagee Letters. If you find a discrepancy between the presentation and Handbooks, Mortgagee Letters, etc., the official policies prevail. Please note the information provided in this training is subject to change.
- Please consult HUD online Handbooks at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4155.1 and Mortgagee Letters through <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm> for the most recent updates and current policy.