



NEWS AND UPDATES

TO: All FHA-Approved Mortgagees

What's New

Manual Underwriting Requirements Published in Mortgagee Letter 2014-02

Mortgagee Letter 2014-02, published today, provides revised manual underwriting requirements applicable to Federal Housing Administration (FHA) Title II forward mortgages*. Revisions to FHA manual underwriting requirements were published in a Final *Federal Register* Notice, *FR 5595-N-01*, on December 11, 2013.

Based on the Final Notice, today's Mortgagee Letter explains maximum qualifying ratios for manually underwritten mortgages, and the compensating factors that must be documented in order for a mortgagee to approve a borrower whose qualifying ratios exceed certain thresholds. The revised requirements will be effective for all FHA case numbers assigned on or after April 21, 2014. Mortgagees must review today's Mortgagee Letter to understand the full scope of these changes, and to begin planning for implementation. Review Mortgagee Letter 2014-02 at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee.

FHA will host a conference call for mortgagees on the manual underwriting policy revisions on January 29, 2014. Participation information is included at the end of this issue of *FHA Single Family Housing News*.

* Revised requirements are not applicable to FHA to FHA Streamline Refinance Mortgages, Refinances of Borrowers in Negative Equity Positions, Home Equity Conversion Mortgages, or Title I loans.

Policy Change Highlights

FHA's revised manual underwriting requirements balance access to mortgage credit and sustainable homeownership opportunities with prudent risk management that protects the solvency of FHA's Mutual Mortgage Insurance Fund. Today's Mortgagee Letter:

- **Explains maximum qualifying ratios** for all manually underwritten mortgages based on the borrower's minimum decision credit score and compensating factors. Maximum qualifying ratios by lowest minimum decision credit score, and acceptable compensating factors, are summarized in a Manual Underwriting Matrix contained in Mortgagee Letter 2014-02.

- **Revises acceptable compensating factors** for borrowers with a minimum decision credit score of 580 or more. These factors vary based on combinations of:
 - The borrower's minimum decision credit score;
 - Whether the borrower has one or two compensating factors from the list of acceptable compensating factors;
 - Whether the property is a 1- or 2-unit property, or a 3- or 4-unit property;
 - Whether the borrower has discretionary debt.

Note: Borrowers with minimum decision credit scores below 580, or with non-traditional or insufficient credit, may not exceed FHA's standard qualifying ratios.

- **Provides specific requirements for underwriters** on how to document compensating factors when approving a mortgage with a ratio that exceeds FHA's standard qualifying ratios. This allows mortgagees to consider borrowers who may not meet automated credit assessment criteria but have compensating factors that can only be analyzed through manual underwriting.
- **Implements a requirement for cash reserves** equal to one or more total monthly mortgage payments for manually underwritten mortgages for 1- and 2-unit properties. Existing reserve requirements for all 3- and 4-unit properties remain unchanged.

Mortgagee Letter 2014-02 provides additional requirements for mortgagees related to:

- The definition of reserves.
- Calculating residual income.
- Documenting acceptable compensating factors, with specific standards on how to use residual income as a compensating factor.

FHA's current requirements for manually underwritten mortgages remain in effect until the revisions in Mortgagee Letter 2014-02 become effective for case numbers assigned on or after April 21, 2014. In addition, mortgagees must review the Affected Topics table in the Mortgagee Letter. The table lists the sections of HUD Handbook 4155.1, *Mortgage Credit Analysis for Mortgage Insurance for One-to-Four Unit Mortgage Loans*, which are affected by revisions to manual underwriting requirements.

Overview Conference Call for Mortgagees

Join senior FHA policy experts for this conference call briefing session. In this session, FHA mortgagees will hear more about the revisions to Manual Underwriting requirements, and will have an opportunity to ask questions about the requirements and implementation.

- **Conference Call Title:** Manual Underwriting Requirements Revisions
- **Date:** January 29, 2014
- **Time:** 1:00 - 2:00 PM Eastern
- **Dial-in Number:** (800) 260-0719
- **Participant Access Code:** 316592

We encourage organizations that plan to have multiple attendees to participate in the session via group conference call. To ensure that we maximize the value and time of all attendees, we ask that you prepare in advance by reviewing Mortgagee Letter 2014-02 at

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee.

Learn More

- Review today's Mortgagee Letter posted on HUD.gov at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee.
- Call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). TDD/TTY 1-877-TDD-2HUD (1-877-833-2483).
- Visit FHA's online Knowledge Base at www.hud.gov/answers.

RESOURCE INFORMATION

FHA HOMEOWNERSHIP LISTSERV ARCHIVE PAGE:

FHA recently began posting prior messages from this Homeownership Listserv on a Departmental web site. Currently the archives include messages from calendar year 2013 and a portion of calendar year 2012. To view messages sent by fhainfo@hud.gov and previously by jerrold.mayer@hud.gov, please visit the following site: [FHA INFO Listserv Archive](#)

HAVE FHA QUESTIONS?

For FHA technical support, please search the [FHA Frequently Asked Questions](#) site or contact the FHA Resource Center by email at: answers@hud.gov or by telephone toll-free between 8:00 AM & 8:00 PM ET at: (800) CALLFHA or (800) 225-5342.

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