

EMAIL: FY 2011- 14

Date: September 1, 2011

Topic: Ownership of a Departure Residence Secured with a Mortgage

**SUPERCEDES POLICY #2010-13 dated September 21, 2010**

From: Office of Loan Guarantee, Section 184 Loan Guarantee Program

**Ownership of Departure Residence Secured with a Mortgage**

The guidance applies solely to a principal residence being vacated in favor of another principal residence that will be secured with a 184 loan. This guidance is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040). This guidance should be included with your 184 Processing Manual, Chapter 5. Departure Residence Guidance dated September 21, 2010 is superseded/cancelled.

**Background:** HUD 184 is committed to working with other lending programs to safeguard and prevent applicants from buying and bailing. Therefore, if the 184 applicant has a mortgage on their departure residence (as verified on the URLA and/or credit report) and will not be selling this residence prior to closing, 184 loan approval is based on the applicant meeting one of the requirements listed. **NOTE: If one of the two exceptions below is not met, the applicant cannot proceed with the 184 application.**

1 Relocation: The applicant must provide evidence of relocating with a new employer or transfer by the current employer to an area not within reasonable and locally recognized commuting distance (normally 50 miles or more).

OR

2 Increase in Family Size: The applicant must provide evidence an increase in family size that requires additional bedrooms.

**Eligibility:** If the applicant meets 1 or 2 above (relocation or increase in family size), then the following must also be met:

1. Qualification. Applicant must income and credit qualify based on **both full** PITIs. HUD 184 will not include rental income from the departure residence in the borrower's debt to income ratio.

**AND**

2. Value of Departure Residence. The departure residence must evidence a loan-to-value

ratio of 75 percent or less, as determined by either a current (no more than 120 days old) FHA residential appraisal completed by a certified appraiser or by comparing the unpaid principal balance to the original sales price of the property and obtaining an estimate from Zillow, AVM or other comparable resource.

**AND**

3. Rental Lease Agreement or Sales Listing Agreement:

(a) The applicant must have an executed rental lease with a one year term that will commence on or before the purchase of the new home with a 184 mortgage and evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner;

**OR**

(b) Evidence the departure residence is listed for sale and/or under contract to be sold.

A request for an exception to this policy must be submitted to the Office of Loan Guarantee underwriter for review and approval. The lender must present sufficient evidence to support the request for an exception.