FHA Program (203b)

revised 4/4/2019

This matrix is intended as an aid to assist in determining if a property/loan qualifies for certain FHA offered programs. It is not intended as a replacement for FHA guidelines. Users are expected to know and comply with FHA requirements.

Note: This matrix includes overlays which may be more restrictive than FHA's requirements. Please read through this matrix completely and thoroughly. FSB reserves the right to update and adjust the matrix guidelines at any time.

Program Qualifications

FSB's FHA Purchase program is designed for the purchase of OWNER OCCUPIED Single Family Residences using an FHA insured home loan.

Purchase Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV Including UFMIP	AUS Findings Required
Primary Residence Purchase				
600**	1-4	96.5%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible*
Primary Residence Purchase with Manual Underwrite				
600**	1	96.5%	Maximum LTV plus the amount of the UFMIP	Refer/Eligible*
Primary Residence – Purchase Manufactured Home				
600**	1	96.5%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible *(2)
Non Arm's Length (Identity of Interest) Transaction				
600**	1-4	85%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible*
90 Day Resale Waiver				
600**	1-4	96.5%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible*
Borrower with One Credit Score				
600**	1-4	96.5%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible* (1)
Borrower with No Score (manual underwrite)				
N/A	1	96.5%	Maximum LTV plus the amount of the UFMIP	Refer/Eligible* (1)

✳ AUS findings refer to DO/DU or LP findings

1. Borrower must have acceptable non traditional tradelines as outlined in Eligibility Requirements below
2. Manual Underwriting permitted on Manufactured Home Purchase with management approval

**Overlays specific to FSB apply to the 600 – 619 score range. Please review the 600-619 Section for details.

Refinance Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV Including UFMIP	AUS Findings Required
Primary Residence Refinance				
600**	1-4	97.75%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible*
Primary Residence Manual Underwrite				
600**	1 - 2	97.75%	Maximum LTV plus the amount of the UFMIP	Refer/Eligible*
Primary Residence Streamline Refi				
600**	1-4	97.75%	Maximum LTV plus the amount of the UFMIP	N/A
Primary Residence Cash Out Refi (any property type)				
600**	1-4	85%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible*
Primary Residence – Manufactured Home				
600**	1	97.75%	Maximum LTV plus the amount of the UFMIP	Approve/Eligible (1) (2)
Borrowers with No Score or One Score eligible based on meeting specific requirements – see sections below				

✳ AUS findings refer to DO/DU or LP findings

1. Borrower must have acceptable nontraditional tradelines as outlined in Eligibility Requirements below
2. Manual Underwriting permitted on Manufactured Home Purchase with management approval

**Overlays specific to FSB apply to the 600 – 619 score range. Please review the 600-619 Section for details.

Maximum Loan Amount

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the floor or greater than the ceiling as outlined in the matrix above. See this link for FHA County Mortgage Limits: https://entp.hud.gov/idapp/html/hicostlook.cfm

Purchase transaction using Section 203b and 234c condominium units the Maximum Base Loan Amount is calculated as the lesser of:

Sales price or appraised value
Minus any adjustments for excessive seller contributions/inducements to purchase
Multiplied by the appropriate LTV factor, see *Eligibility Matrix Loan Amount & LTV Limitations*

Purchase transaction not permitting maximum financing (e.g., identity of interest, non-occupant co-borrower) maximum Base Loan Amount is calculated as the lesser of:

Sales price or appraised value
Multiplied by the appropriate LTV factor, see *Co-Borrower/Co-signer* section

Product Description

Fixed Rate 15 and 30 year term; fully amortized

Eligibility Requirements

Max LTV	**Calculated per FHA Guidelines**
Max CLTV	Per FHA Guidelines

	Purchase Community 2nds or non-profit grants must meet guidelines Refinance Existing 2nds must re-subordinate
Minimum Loan Size	$30,000 See rate sheet for applicable adjustments
Maximum Loan Size	FSB does not have a maximum Not to exceed county limits as published by HUD
Geographic Locations/Restrictions	Eligible states are as follows: **All states** *except* for NY, MA, VT, CT, ME, RI, NH, VA, AK, HI – Delegated Only, Washington D.C. Additional Transactions as follows ➢ Texas Cash Out 50(a)(6) is ineligible ➢ State specific regulatory requirements supersede all underwriting guidelines set forth by FSB
Credit Report	Full tri-merge report required Credit report age max of 120 days from date of report
Non Purchasing Spouse	Credit report required in Community Property State See also "Community Property States" section
Documentation	***Note on Documentation: Please do not highlight with colored highlighter and copy or scan document. The documents are difficult to read for our underwriters and staff.*** All documentation should be dated within 30 days of closing
Purchase Loans	Construction to Permanent mortgage are ineligible. 203K products are not available. Purchase Mortgages ➢ The maximum LTV is 96.5% of the Adjusted Value ➢ The Adjusted Value is the determined value of the property used for making an FHA Insured Mortgage Loan ➢ For purchase transactions, the Adjusted Value is the lesser of the: o Purchase price less any Inducements to Purchase; or o Property Value ➢ Property Value refers to the value as determined by the FHA Roster Appraiser Inducements to Purchase refer to certain expenses paid by the Seller and/or other Interested Party on behalf of the borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage. Examples of Inducements to Purchase include, but are not limited to: • Contributions exceeding 6% of the /Adjusted Value • Contributions exceeding the origination fees, other closing costs, and discount points • Decorating allowances

	• Repair allowances • Excess rent credit • Moving costs • Paying off consumer debt • Personal property • Below-market rent, except for borrowers who meet the Identity-of-Interest exception for family members **90 Day Resale Rules – Please see "90 Day Resale" section** **<u>90 Day Resale Prohibition (Waiver expired 12/31/14 per FHA Info #14-73):</u>** Purchase Mortgages – Transaction is prohibited if Seller has owned property and on title less than 90 days at time of the purchase contract or earnest money agreement. • The Seller's 90 days is calculated based on the Seller's date of acquisition which is the settlement date of the Seller's purchase of the property. • The resale date is the date of the sales contract by a buyer intending to finance the property with an FHA insured loan is signed. **Seller of the property must be on title as the owner of record.** ➢ To be eligible for a mortgage insured by FHA • Property must be purchased from the owner of record, • The transaction may not involve any sale or assignment of the sales contract, and • The lender must obtain documentation verifying the seller is the owner of record **To be eligible for a mortgage insured by FHA:** ➢ Property must be purchased from the owner of record. ➢ The transaction may not involve any sale or assignment of the sales contract. ➢ The lender must obtain documentation verifying the seller is the owner of record.
Refinance	Eligible after a minimum of 6 months of payments **<u>Mortgage Seasoning Requirements for FHA Insured Mortgages</u>** On the date of the FHA case number assignment the borrower must have: ➢ Made at least six payments on the FHA-insured mortgage that is being refinanced; or ➢ At least six full months have passed since the first payment due date of the mortgage that is being refinanced; and ➢ At least 210 days must have passed from the closing date of the mortgage that is being refinanced; or ➢ If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption **<u>Ineligible for Refinance:</u>** No Score Borrower

IMPORTANT: Identity of Interest must be met on all applicable transactions. If refinancing a contract for deed, Identity of Interest may apply. Please review Identity of Interest section to review guidelines.

Note: Contract for Deed may be a purchase or refinance. Please see end of this section for further information.

Basic Requirements

- A new FHA appraisal is always required unless using a program that an appraisal is not required.
- No termite certification is required unless appraiser notes a problem
- At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to case number assignment
- Payoff statements are required for all existing mortgages
- Primary Residence only
- The mortgagee must review the borrower's employment documentation or obtain utility bills to evidence the borrower currently occupies the property as their primary residence
- All FHA loans require a refinance authorization number from FHA Connection. These can be requested by using the Case Number Request form and emailing the form to govrequests@flanaganstatebank.com

Refinance Types Available
Cash out
No Cash Out

- Rate and Term
- Simple Refinance
- Streamline Refinance

Cash Out

- Limit to 85% (on manufactured homes and SFR)
- Cash in hand limited to $50,000
- Debt payoff – no limit
- Mortgage history cannot show any delinquency within the most recent 12 months
- Cash out mortgage worksheet required
- Non owner occupant co-borrower may not be used to help qualify. NOO Co-Borrower may be added to loan, but may not be used to qualify for C/O transaction.

Cash Out Calculation Based on Length of Ownership	
If the property has been owned by the borrower as his/her principal residence for….	Then the mortgage…
12 months or more preceding the date of the case number order.	Is eligible for the maximum amount of 85% of the appraiser's estimate of value
Less than 12 months preceding the date of the case number order	Is not eligible for a cash out refinance. **

**exceptions allowed for inherited property.

	Note: Prior ownership must be reviewed for undisclosed identity-of-interest transactions. *Rate/Term Refinance* Rate and term refers to a no cash-out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction. Any mortgage that is not an FHA mortgage can be refinanced using the rate/term option. Closing costs can be included in the loan as long as appraised value and max LTV allows. *Simple Refinance* Refers to a no cash out refinance of an existing FHA insured mortgage in which all proceeds are used to pay the existing FHA insured mortgage lien on the subject property and costs associated with the transaction. An appraisal is needed with this transaction type. *Streamline* Non Credit Qualifying • Borrower(s) is eligible for this option if all Borrowers in the existing mortgage remain as borrowers on the new mortgage. Mortgages that have been assumed are eligible provided the previous Borrower was released from liability ➢ A borrower on the mortgage to be paid may be removed from title and new mortgage in cases of divorce, legal separation or death when: ➢ The divorce decree or legal separation agreement awarded the property and responsibility for payment to the remaining borrower, if applicable, and ➢ The remaining Borrower can demonstrate that they have made the mortgage payments for a minimum of six months prior to the case number assignment. • Mortgagee does not need to perform a credit or capacity analysis • Mortgagees are not required to complete sections IV, V, VI and VIII on the 1003 • No appraisal is needed • Verify the borrower(s) occupy the property • Individuals may be added to title and mortgage on this program without a creditworthiness review • No Credit report is needed on this program for qualification, but for rate pricing, a mortgage only credit report will be required. • Verification of funds to close is needed, but no further asset documentation is required.

	• Maximum Base Loan Amount for Streamline Refinances is: the lesser of: ❖ The outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus: ❖ Interest due on the existing Mortgage; and MIP due on existing Mortgage; or ❖ The original principal balance of the existing Mortgage (including financed UFMIP); ❖ Less any refund of UFMIP (if financed in original Mortgage). *Basic Streamline Guidelines* • Borrowers cannot have any mortgage delinquencies within the past 12 months • All Streamline Refi's require a Max Mortgage Worksheet to be completed • Loan amount may only include the outstanding principal balance of the existing FHA loan plus the new UFMIP (applies to Non Credit Qualifying with and without an appraisal) • Cash out is not allowed • Net Benefit must be met • A reduction of at least .5 percentage points below the prior Combined Rate. Combined Rate refers to the interest rate on the mortgage plus the Mortgage Insurance Premium (MIP) rate, or • Refinancing from an ARM to a fixed rate mortgage in accordance with the conditions in the "net tangible benefit" worksheet • Reduction in term alone constitutes net tangible benefit if the new rate does not exceed the current rate and payment does not increase by more than $50. • Owner occupied properties only – lender to verify owner occupancy through utility bills or employment documents • Current 1st mortgage must be an FHA loan to utilize a Streamline product • A streamline program should not be ran through an AUS as this is considered a manual underwrite **Mortgage Seasoning Requirements for FHA Insured Mortgages** On the date of the FHA case number assignment the borrower must have: ➢ Made at least six payments on the FHA-insured mortgage that is being refinanced; or ➢ At least six full months have passed since the first payment due date of the mortgage that is being refinanced; and ➢ At least 210 days must have passed from the closing date of the mortgage that is being refinanced; or ➢ If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption

<table>
<tr><td></td><td><u>Contract For Deeds</u>

<u>Unrecorded Contract For Deeds</u>
Will be treated as a purchase per FHA 4000.1 guidelines.
All Earnest Money must be verified per the contract details. A copy of the cancelled check or money order must be provided. If gift funds were used, those will be required to be documented per FHA guidelines.

<u>Recorded Contract for Deeds</u>
Rate/Term refinance only. Cash out is not allowed.
If the contract was recorded over 12 months prior to application, the Earnest Money Deposit will not need to be verified.

A loan involving a CFD will require a manual downgrade due to undisclosed mortgage debt on the credit report that has not been scored by TOTAL.

Cancelled checks will be required to prove mortgage history. A Recorded CFD will allow us to follow program guidelines for length of time on title for refinancing.</td></tr>
<tr><td>Property Eligibility</td><td>Eligible
1-2 Units
3-4 Units
<u>Self-Sufficiency Rental Income Eligibility</u>
Net self-sufficiency rental income refers to the rental income produced by the subject property over and above the Principal, Interest, Taxes and Insurance (PITI)
The PITI divided by the monthly New Self-Sufficiency Rental Income may not exceed 100% for three- to four-unit properties
Net self-sufficiency rental income is calculated by using the Appraiser’s estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser’s estimate for vacancies and maintenance or 25% of the fair market rent
PUD’s
Condos – Must be on FHA approved list
If the condo project has been withdrawn from FHA’s approved list or does not comply with FHA’s condominium project eligibility guidelines as determined by the loan level certification for Individual Unit Financing process is ineligible.
Site condos do not require condominium project approval.
Modular pre-Cut/Panelized Housing
Manufactured Housing (see Manufactured Home Criteria section)
Ineligible
Condo Hotels
Co-ops
Properties located within designated Coastal Barrier Resource system (CBRS) areas
Properties with greater than 25 acres</td></tr>
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	➢ Uniquely designed properties such as dome homes, log cabins, earth berms, and underground homes. **Shared Well** Shared wells are allowed only when lender evidences: • Connection to public or community water system is not feasible and • Property is not located in an area where local officials have determined public connection to be feasible • Shared wells must have a maintenance agreement on file in the courthouse between all parties sharing the well. If one is not available, a fully executed agreement will be needed prior to clear to close. **Share Roads/Private Roads** Shared or Private Roads will require a Road Maintenance Agreement to be on file identifying how the road will be maintained. All parties that live on the road and have use of the road must be part of the agreement. The agreement must be filed with the courthouse and if one is not available a fully executed agreement will be needed prior to clear to close. The recording may occur with the closing of the file.
203(h) Disaster Victims Program	203(h) works in conjunction with the HUD 203(b) program. The primary difference is the cash investment. 203(h) allows for 100% financing. The program covers displaced owners or displaced renters in **federally (Presidential) declared disaster areas.** Original home must have been located in an area that has been designated by the President as a federally declared disaster area (http://www.fema.gov/disasters). A copy of the applicable declaration indicating individual assistance must accompany the file. Home must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. (You cannot use the 203(h) program to rehabilitate a home.) Home may be rebuilt on existing property or a new home residence may be purchased anywhere. Borrower (can be a prior owner or renter): • Prior permanent residence documentation includes valid driver's license, voter registration card, or utility bills. Must have been permanent resident of a destroyed or substantially damaged residence in the Presidentially declared major disaster area. • Damage documentation includes an insurance report, an inspection report by an independent fee inspector or government agency, or conclusive photographs showing the destruction or damage. *Borrower must apply (1003 application submitted to lender) for 203(h) disaster program within **one year** of the Major Disaster Declaration by the President.* Properties eligible to be purchased with 203(h): • One-unit detached homes (Two-, three-, and four-unit properties may not be purchased under this program) • One-unit detached home in a PUD • Units in FHA approved condominium projects

	• Property must meet HUD's Minimum Property Standards and Minimum Property Requirements. Ineligible properties with 203(h): 2-4 unit properties Co-ops Attached PUDs Second Homes Investment Property Maximum Mortgage – subject to statutory loan limits (county loan limits for base loan amount apply) The total LTV may exceed 100% by the amount of the financed Upfront Mortgage Insurance Premium (UFMIP). Down Payment, Closing Costs, Prepaid Expenses • No down payment is required • Closing costs and prepaid expenses must paid by borrower in cash or lender premium pricing. Closing costs and prepaid expenses may not be financed with a 203(h) loan. o Seller may contribute to closing costs and prepaid expenses up to 6% of sales price Borrower must meet all other requirements for FHA qualification. 203(h) is run through TOTAL scorecard. An "approve/ineligible" is acceptable if the ineligibility is for loan amount/LTV and calculations are made in accordance with 203(h) program. A "refer" loan may be manually underwritten per FHA guidelines. Borrowers with existing mortgages on substantially damaged or destroyed property within the disaster area must show those mortgages are paid off. Borrower is qualified with all debt as with normal FHA mortgage. Borrower may relocate anywhere. Borrower does not have to purchase within the same area. Borrower must qualify with income and employment per FHA guidelines regardless of the location of the new property. See HUD Handbook 4000.1 for certain credit and documentation flexibilities and underwriting guidance.
Escrow Accounts for Taxes and Insurance	Escrow accounts are always required on an FHA loan. No exceptions. **<u>Property Taxes</u>** When calculating escrow set up for property taxes, FSB will require certain parameters to insure accuracy. • All tax amounts are to show on the title commitment or tax certificate. • Tax amounts must show without excess exemptions applied. If an exemption will be in effect when the borrower takes possession of the home, we must have documentation that the title company will file the exemption at closing. If the title company cannot provide this confirmation, the exemption must be removed and tax calculation showing at the worst case scenario for escrow set up and DTI calculation.

	• For New Construction, the title company must provide an estimate of the property taxes based on the appraised value of the home. A state/county approved calculator for property taxes will be allowed but the calculation must be based on appraised value. **Homeowners Insurance** Homeowners insurance must have the following on the declarations page: • Property address to match appraisal address exactly • Deductible to be indicated on dec page – cannot exceed 5% of dwelling or $5000 whichever is less • Borrowers names to match 1003 and be spelled correctly • Mortgagee Clause to read exactly: Flanagan State Bank ISAOA 333 Chicago Road PO Box 302 Paw Paw, IL 61353 • Loan number to be on policy • Dwelling coverage to be indicated. Must cover loan amount. If a manufactured home, exceptions may apply • Effective date and expiration date to be on or before closing date • Must show policy is effective for 1 year if a purchase • If a refinance and policy will expire before first payment is made, FSB will need proof of what the new premium will be upon renewal • Must have invoice or paid receipt for premium in file prior to closing • Condo must have HO-6 insurance to cover 20% of appraised value • Condo insurance must show unit owner name and unit. Must have $1,000,000 in building coverage and liability coverage Coverage must be bound prior to closing. A quote can be used for initial underwriting, but will not be accepted for final approval. **Flood Insurance** Dwelling to cover loan amount. Unless loan amount is over $250,000. $250,000 is the max FEMA allows. FHA requires total estimated cost new on cost approach section of appraisal. ➢ Flood zone to be indicated and must match flood zone on appraisal and flood cert. ➢ Unless a higher maximum amount is required by state law, the maximum allowable deductible is $5000 ➢ All the other homeowner's insurance requirements apply to flood insurance as well, see above.
Manufactured Home	**All standard FHA credit criteria that is not addressed in this section does apply.** **Appraisal** Full interior and exterior appraisal must be completed (Manufactured Home Appraisal Report Form 1004C required)

	Appraiser should use three comparable sales of similar manufactured homes A detailed and supported cost approach to value is required on all MFH appraisals. Distance of the sales must be reasonable. **The following are ineligible.** ➢ If the site or manufactured home is substantially non-conforming with the neighborhood it is ineligible ➢ Creating comparable sales by combining vacant land sales with the contract purchase price of the home is prohibited. (This may be used as additional supporting documentation only.) ➢ Manufactured homes located in a Flood Zone **Construction Status** Construction status is determined at time of appraisal. New Construction refers to properties that are proposed, under construction, or were completed within one year as defined below: • Proposed – no concrete or permanent material placed. Digging of footing and placement of re-bar is not considered permanent • Under construction – Refers to the period from first placement of permanent material to 100% completion (finalized and ready to occupy, with no certificate of occupancy (CO) issued) • Existing (completed) for less than one year – Refers to properties which are 100% complete, legally occupiable (CO issued), but never occupied. The one-year new construction period runs from the date the CO is issued for up to 12 months **Please note: FSB does not offer construction loans of any type. The only acceptable property type FSB will lend on is Existing(completed) for less than one year or Existing property older than 1 year.** **Documentation** Evidence of surrender of certificate of title or that no certificate was issued, refer to individual state requirements. ➢ Confirm property is legally classified as real property, on a permanent foundation, and owner owns both land and MFH ➢ ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufactured homes to be treated as real property ➢ Deed of Trust (or other security instrument) must include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description must include the serial or VIN number for each unit/section; make, model, size, and any other information required by applicable law to definitively identify the manufactured home. ➢ Affidavit of Affixture – Borrower and Lender must sign and notarize acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage. Affidavit must be recorded simultaneously with security instrument. ➢ Limited Power of Attorney pertaining to title issues and foreclosure must be signed with closing documents **Financing Details** Purchase Transaction:

	➢ See Construction Status above for New Construction definition ➢ An existing (not new construction) manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date, otherwise property is considered new construction ➢ The LTV ratio for a loan secured by a manufactured home that already exists on its foundation will be based on the lowest of: • The sales price of the manufactured home and land or • The current appraised value of the manufactured home and land. Rate & Term Refinance or Limited Cash-Out Refinance Transaction: ➢ The manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date ➢ A limited cash-out transaction involves the payoff of an existing mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered as separate liens). The maximum LTV ratio will be based on the lower of: • The current appraised value of the manufactured home and land; or • If the manufactured home was owned by the borrower for less than 12 months on the loan application date and: ➢ If the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale), or ➢ If the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period. ➢ Owner occupied properties located in Texas • If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity product and is ineligible. • If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and is considered a rate and term refinance. The second lien must be subordinate to the first mortgage and a subordination agreement must be executed. Borrower cannot receive any cash back from first mortgage transaction. • If a Texas Section 50(a)(6) second lien is being paid off, the loan is restricted to the Texas Home Equity product and is ineligible. • The title policy will reference Texas Section 50(a)(6) and is ineligible. **Property Requirements**: ➢ The land where the manufactured home rests must be fee simple ➢ The MFH must be a single family dwelling legally classified as real property ➢ The towing hitch, wheels, and axles must be removed ➢ The MFH must assume the same characteristics of a site-built housing ➢ The MFH must have sufficient square footage, room dimensions to be acceptable to purchasers in the subject market area ➢ The MFH must be located on an all-weather accessible road

	➢ The MFH must have been built in compliance with Federal Manufactured Home Construction and Safety ➢ Standards that were established June 15, 1976 as amended and in force at the time the home is manufactured and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by: • HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit factory-installed equipment; and • HUD Certification Label (sometimes referred to as a HUD "seal" or "tag") – A metal plate located on the exterior of each section of the home The appraisal form 1004C must indicate evidence of both the HUD Data Place/Compliance Certificate and the HUD Certification Label ➢ The MFH must be attached to a permanent foundation system ➢ The MFH must be permanently connected to the septic or sewage system ➢ The MFH must be permanently connected to all necessary utilities (water, electricity, gas service, etc.) ➢ The MFH must not have been installed or occupied previously at any other location or site The MFH must not have any additions or structural modifications to the original structure – this includes a garage, deck or room addition. Exceptions available case by case. (See Foundation Certification) ➢ This includes additional room count or additional living area square footage which is not allowed ➢ Typical porches and decks installed at time of siting, as well as adjacent carports and garages are allowed Any additions must be inspected by the local agency in charge of inspecting and permitting manufactured homes. If no agency exists, then a structural engineer must certify that the addition/attachment has no negative effect on the structural integrity of the manufactured home. **Foundation Certification** File must contain an Engineer's Certification on Foundation Compliance attesting to compliance with the current PFGMH (4930.3), that must be: • Completed by a licensed professional engineer or registered architect licensed/registered in the state where the manufactured home is located • Site-specific, and • Included in both the lender's loan file and the insuring binder submitted to FHA Note: The certification must contain the engineer's or registered architect's signature, seal, and/or state license/certification number. In states where seals are issued, the seal must be on the certification. A copy of the foundation certification, showing that the foundation met the PFGMH guidelines that were in effect at the time of certification, is acceptable for future FHA loans, provided there are no alterations and/or observable damage to the foundation.

A copy of the foundation certification is not required in the loan file or insuring binder for any FHA-to-FHA transaction, provided that

- no modifications have been made to the foundation or structure from the date of the effective certification, or
- FHA/HUD Real Estate Owned (REO) Division sales

Other Information

Properties that are under construction or existing for less than one year are limited to 90% LTV UNLESS:

- The mortgagee issued an Early Start Letter
- A building permit and CO were issued by the local jurisdiction; or
- The property has a 10-year warranty

FHA Loans (ML 2009-37) - Flood Insurance – LOMA/LOMR/Elevation Certification

- 24 CFR 203.43f (c) (i) and (d) (ii) require that the finished grade level beneath the manufactured home shall be at or above the 100-year return frequency flood elevation. If any portion of the property improvements (the dwelling and related structures/equipment essential to the property value and subject to flood damage) for both new and existing manufactured homes are located within a SFHA, the property is not eligible for FHA mortgage insurance without: (1) a FEMA issued LOMA or LOMR (in these cases, neither an elevation certificate nor flood insurance is required) or (2) an elevation certificate prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100 year return frequency flood elevation.

Property Types

Eligible

- Single Family Manufactured House with minimum requirements as follows:
  - Doublewide
  - 400 minimum square feet

Ineligible

- FHA does not insure mortgages on manufactured homes built prior to June 15, 1976
- Condo manufactured housing
- Co-op manufactured housing
- Leasehold property
- MFH in parks - unless land/home loan
- MFH that has been moved from original installation(re-sitting)
- Single wide manufactured housing
- Homes with effective ages that significantly lower than the mortgage term offered
- ARM’s
- High Balance Loans
- MFH in flood zone

Termite Control

The steel chassis under a newly-constructed manufactured home unit is not an effective termite barrier. Any one, or a combination of the following methods is required for maximum protection against termites, including

	➢ Chemical soil treatment ➢ EPA-registered bait treatments ➢ Pressure preservative-treated wood, or ➢ Naturally termite-resistant wood Termite protection policies for existing manufactured homes are handled in the same manner as stick-built homes. State or local requirements are to be followed. The **Certification Label** (also known as a HUD tag) is a metal plate that is affixed to the outside of the manufactured home. **HUD Labels (Tags) verification is required** HUD does not reissue tags for manufactured homes. However, the Department can issue a letter of label (tag) verification for units for which it can locate the necessary historical information. The label numbers can be found on a data plate, a paper label affixed inside the home and is the size of a standard sheet of paper (8 ½" x 11") inside the home in one of three locations: on or near the main electrical panel, in a kitchen cabinet, in a bedroom closet. The data plate has a map of the United States to let the consumer know the Wind Zone, Snow Load, and Roof Load for which their home was built. You may request letters of label verification from the Institute for Building Technology and Safety (IBTS), by visiting IBTS' website at **http://www.ibts.org/services/services-in-the-public-good/cert-label-verification.html**. You may also contact IBTS' Label Department at 703-481-2010 or via fax at: 703-437-6894.
Housing History	***Housing History – payment history is inclusive of all liens regardless of position, as well as all occupancy types.*** • AUS Approved loans – Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results ♦ Housing (Mortgage/Rental) Delinquencies - Loans will be ineligible if there is one or more housing (mortgage/rental) delinquency that is 1x60, 1x90, 1x120, 1x150 days or greater reported within 12 month of the date of the credit report • AUS Refer and manually underwritten loans ♦ FHA Credit Standards apply, subject to clear CAIVRS, LDP and GSA search results. ♦ For purchase transactions: 12 month housing payment (mortgage/rental) history via a credit report, cancelled checks or VOM to reflect no more than 0 x 30 in the previous 12 months. *** FSB will require proof that mortgages are current at time of closing. This can be supplied to underwriting with one of the following options:* ▪ Credit Supplement ▪ New Payoff statement ▪ Online printout showing payment made for the current month due If more than one of these items are supplied and they have conflicting information, further conditions may apply.

Qualifying Ratios	Qualify at note rate **<u>Ratios</u>** *AUS approved – ratios evaluated by AUS.*** ** Ratios will be limited to 55% with an AUS approval. Ratios that exceed 55% with AUS approval must receive management approval to proceed. Compensating factors must be present for management approval to be given. Management approval may be received prior to loan being underwritten. Please send 1003, credit and any additional information that will assist with the management approval to scenarios@flanaganstatebank.com to received management approval prior to underwriting of the file. If ratios go up during the underwriting of the file, the underwriter will send to management review after all PTC conditions have been received on the file. *AUS Refer* May be manually underwritten as long as a refer/eligible is received. Ratios subject to manual criteria. See Manual Underwriting Section for further details on manual underwriting criteria.
Occupancy	Owner Occupied Only
Credit History	Please note: that derogatory event waiting period is defined as “from event date to the new loan case number order date”. Valid Social Security Number ➢ The mortgagee must document and validate for each borrower their valid social security number. Please note: FHA/HUD views all events as separate from other occurring events and waiting periods are from the last occurring event. ***<u>Housing History – payment history is inclusive of all liens regardless of position, as well as all occupancy types.</u>*** • AUS Approved loans – Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results ♦ Housing (Mortgage/Rental) Delinquencies - Loans will be ineligible if there is one or more housing (mortgage/rental) delinquency that is 1x60, 1x90, 1x120, 1x150 days or greater reported within 12 month of the date of the credit report • AUS Refer and manually underwritten loans ♦ FHA Credit Standards apply, subject to clear CAIVRS, LDP and GSA search results. ♦ For purchase transactions: 12 month housing payment (mortgage/rental) history via a credit report, cancelled checks or VOM to reflect no more than 0 x 30 in the previous 12 months. **<u>Payment History on Housing Obligations (Manual)</u>** The Mortgagee must determine the Borrower’s Housing Obligation payment history through: ➢ the credit report;

- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Mortgage received directly from the mortgage servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee must verify and document the previous 12 months' housing history:

- For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification _from the property owner where they are residing_ that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.
- A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

*** FSB will require proof that mortgages are current at time of closing. This can be supplied to underwriting with one of the following options:*

- Credit Supplement
- New Payoff statement
- Online printout showing payment made for the current month due

If more than one of these items are supplied and they have conflicting information, further conditions may apply.

Derogatory credit paid within the last 24 months will be reviewed with more weight by the underwriter. Overall credit will be reviewed to establish the borrower's willingness and ability to pay. The underwriter will analyze the credit information and determine the risk factors involved in the final decision.

Minimum Decision Credit Score (MDCS)
A minimum decision credit score is determined for each borrower. Where the loan involves multiple borrowers, select the lowest minimum decision credit score for all borrowers. Where the loan involves multiple borrowers and one or more of the borrowers do not have a credit score (non-traditional or insufficient credit), use the lowest minimum decision credit score of the borrower(s) with credit score(s). If the borrower's MDCS is at or above 580 then the borrower is eligible for maximum financing.

**FSB reserves the right to require ANY collection, judgement, or debt to be paid that might have a future effect on our first lien position or the borrower's ability to repay the loan. This includes collections or charge offs that are outside of a 12 months look back.

<u>Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt</u>
Mortgagees are prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

- If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Mortgagee must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the Mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

- If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Mortgage until the Borrower resolves the debt with the creditor agency.
- The Mortgagee may not deny a Mortgage solely on the basis of CAIVRS information that has not been verified by the Mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the mortgage application. Verified delinquent federal non-tax debt makes the borrower ineligible.
- In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act. The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.
- The Mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

Authorized User
Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless the mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI.

Waiting Periods after Significant Derogatory Credit Events – How to Measure
The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event (event date) and ends on the date of case number assignment. FSB follows standard FHA Waiting Period Requirements. Reduced waiting periods "with Extenuating Circumstances" are allowed at underwriter discretion with appropriate documentation and following FHA/HUD guidance.

Reduced Waiting Periods After Derogatory Events – Extenuating Circumstances
Reduced waiting periods due to extenuating circumstances may only be applied via Manual Underwriting.

Derogatory Accounts
FSB will review the file as a whole to determine if outstanding collection and charge off accounts will require payment or may remain open. Regardless of debt determination, the credit history that derogatory accounts present must still be included in the analysis of the file. The underwriter has the final determination and the file must contain:

1) LOX for all derogatory credit showing on report to help the underwriter determine if a pattern exists or if circumstances were out of the borrower's control

2) Supporting documentation for the LOX provided, if noted within the letter. The explanation and supporting documentation must be consistent with other credit information in the file.

Underwriting will review the information to determine if the collection accounts and charge offs were a result of 1) the borrower's disregard for financial obligations; 2) the borrower's inability to manage debt; or 3) extenuating circumstances.

Collection Accounts (TOTAL)
If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of $2,000 or greater, the mortgagee must:

- Verify that the debt is paid in full at the time of or prior to settlement using acceptable sources of funds;
- Verify that the borrower had made payment arrangements with the creditor and include the monthly payment in the borrower's DTI; or
- If a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the borrower's DTI.
- Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the borrower's ability to pay all collection accounts, unless excluded by state law.
- Documentation: The mortgagee must provide the following documentation:
    - ♦ Evidence of payment in full, if paid prior to settlement; or
    - ♦ The payoff statement, if paid at settlement; or
    - ♦ The payment arrangement with creditor, if not paid prior to or at settlement.

If the mortgagee uses 5% of the outstanding balance, no documentation is required.

➢ Medical collections are excluded and are not considered debt

Charge Off Accounts (TOTAL)
Charge off accounts do not need to be included in the borrower's liabilities or debt.

Charge Off Accounts (manual)
Defined as loans or debts written off by the creditor that do not have to be included in DTI. The following requirements are applicable on manual underwritten loans only. If a pattern exists for charge offs on an approve/eligible loan, the requirement for this is at the underwriter's discretion.
The lender must:

- ♦ Determine why they exist
- ♦ Document reasons for approving the loan
- ♦ And, obtain a letter of explanation from the borrower with supporting documentation
- ♦ This will apply to large charge offs exceeding $1000, regardless of age and charge off balances >$1000 within the most recent 24 months

Minimum Credit Score Requirements
See Eligibility Matrix

Non-traditional Credit

	Borrowers with non-traditional credit (or insufficient credit) must qualify based on the guidance in HUD 4000.1 If TOTAL renders an “accept/approve” risk classification, it can be relied on (subject to correct data) **EXCEPT** when **none of the owner-occupants has a credit score**. In such cases, the loan must be underwritten using the insufficient credit underwriting guidelines. ***Borrower with one Credit Score*** ➢ DU Approve/Eligible or a manual underwrite is allowed. ➢ Credit data is available from one repository and credit score is obtained from that repository ➢ A three in-file merged credit report was ordered ***Borrower with No Credit Score*** This product is not available for refinance loan type. Purchase only! Follow applicable FHA Guidelines: ➢ Non-traditional credit report is required and must be reported as supplement on the credit report ➢ Credit report must not have any derogatory credit within the most recent 24 months including any collections, charge offs, judgments or late payments. ➢ Min of 3 tradelines required with a 12-month recent history. No late payments. If housing history available, this must be included as one of the tradelines ➢ No open collections or judgments in the past 12 months except medical ➢ Non-occupant Co-borrower allowed but occupying borrower must not exceed 50% DTI on their own. ➢ Ratios max 31/43, no exceptions ➢ 1 months’ reserves required, must be borrower’s own funds (cannot be a gift or borrowed) ➢ Credit Score must be showing as N/A or not scored due to no history. If negative accounts show on the report, the credit will not be accepted as this is not a true no score borrower ➢ Homebuyer education is required through a HUD approved course. A loan that has either: ➢ A combination of borrower(s) with score(s) and borrower(s) with no score that receives a “Refer” or “Manual Downgrade” or ➢ None of the occupant borrowers have a score must be evaluated according to the above referenced guidelines for “Borrower with No Credit Score”. FHA prefers that all non-traditional credit references be verified by a credit bureau and reported back to the lender as a non-traditional mortgage credit report (NTMCR) in the same manner as traditional credit references. ***Judgments*** No open judgments allowed. Must be paid in full prior to clear to close. No exceptions. This includes judgments showing on title or credit report. Recorded lien release or credit supplement is acceptable for documenting. Lien may be paid at closing if documentation of sufficient funds to do so can be provided prior to closing for underwriting approval. Sufficient funds will include enough to pay lien (as proven by a payoff statement), down payment, cash to close as needed per LE.

Tax Liens

Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement and has made at least 3 months of timely payments. Payments may not be prepaid. The IRS agreement and payment history must be presented to underwriting. The payment is to be included in the DTI. The lien holder must subordinate the tax lien to the FHA insured mortgage. Tax liens that are older than the current tax year are subject to credit review based on age of the lien.

Bankruptcy

If a Bankruptcy has not been discharged at least 2 years, the AUS will provide a refer rating and must follow manual underwriting guidelines. If the AUS provides an approve/eligible but the Bankruptcy has not been discharged 2 years or more, the file will be downgraded to a manual underwrite.

CH 7

- Min 2 years from discharge date with AUS approve/eligible
- Re-established credit needed. UW reserves right to request as applicable
- Re-established credit is defined as 2 or more tradelines open for a min of 12 months with a paid as agreed history.

CH 13 – currently in CH 13

- CH 13 does not disqualify a borrower from financing an FHA loan
- Borrower can currently be in CH 13 and finance an FHA loan
- One year of the payout period must have elapsed
- The borrower's payment performance has been satisfactory and all required payments have been made on time. Payment history from Trustee required
- BK payment must be verified and included in DTI
- Borrower must have written permission from the court to enter into the mortgage transaction. Terms of mortgage must be approved and this written permission provided to the underwriter prior to a clear to close
- Full set of BK papers are required**
- If the loan is during a BK, this will be a manual underwrite and adjustments will apply. An approve/eligible will not be received until the CH 13 is 2 years old.

CH 13 – Discharged and within 2 years of event date

- CH 13 must be discharged
- Full payment history for payment on CH 13 required
- Full set of BK papers needed with discharge paper**
- Re-established credit needed. This may be provided in traditional trade lines or non-traditional tradelines
- Manual underwriting guidelines apply

**Bankruptcy papers will be required to support significant events dates. If a property is identified as included in a bankruptcy, a sheriff's sale deed will be needed to show proper time period has elapsed to allow borrower to qualify for the loan.

Credit Counseling

	See CH 13 guidelines – with the only difference being that the Credit Counseling Agency must provide written permission to enter into a mortgage transaction. Participating in a consumer credit counseling program does not require a downgrade to a manual underwrite. (TOTAL) **<u>Credit Counseling (Manual)</u>** Participating in a consumer credit counseling program does not disqualify a borrower, provided the mortgagee documents that: ➢ One year of the pay-out period has elapsed under the plan; ➢ The borrower's payment performance has been satisfactory and all required payments have been made on time; and ➢ The borrower has received written permission from the counseling agency to enter in to the mortgage transaction **Note:** *The mortgagee must manually downgrade to a REFER if the borrower had a foreclosure, short sale or deed-in-lieu of foreclosure in which title transferred from the borrower within three years of case number assignment* ***<u>Foreclosure</u>*** 3 year waiting period from the date of the Recorded Sheriff's Deed transferring the property from the borrower's name. Proof of this date will be required ***<u>Short Sale</u>*** Borrower current at the time of Short Sale ➢ A borrower is considered eligible for a new FHA mortgage if, from the date of loan application for a mortgage loan all mortgage payments due on the prior mortgage were made within the month due for the 12 month period preceding the short sale, and ➢ All revolving and installment debt payments for the same time period were also made within the month due ➢ CAIVRS is clear **Borrower in Default at the time of Short Sale** ➢ A borrower in default on his or her mortgage at the time of the short sale (or pre-foreclosure) is not eligible for a new FHA loan for 3 years from the date of the pre-foreclosure sale. *<u>Higher Priced Mortgage Loans (HPML)</u>* – Allowed per Reg. Z FSB will require a derogatory credit letter to accompany each file that explains all derogatory credit, regardless of the age, that shows on the credit report. ***<u>Letters of Explanation Guidance</u>*** FSB will require LOX's for derogatory credit as follows: For Manually Underwritten files: All derogatory credit for the most recent 24 months on the report and any public records or major derogatory events (such as foreclosure) will need to be addressed. FSB is looking for a reasonable explanation that shows the

	situation was out of the borrowers control, how the borrower resolved the situation and that the situation was resolved and did not occur again. It must show that the reason was not due to financial mismanagement. Financial Mismanagement will not allow for a loan approval. For loans with an AUS approval: Only major items and public records will require an LOX to be completed. Foreclosure, short sale and deed in lieu of are considered major items. LOX's should be included in the original submission to assist the underwriter with the approval/denial decision. ***Inquiry Letter Guidance*** All files will require a letter from the borrower that explains the inquiries showing on the credit report. We will require all inquiries for the past 90 days from the date the report is pulled to be addressed. The inquiry should state the reason it was pulled and if new credit was opened. If new credit was acquired, FSB will need the terms of the new credit that shows the payment, term of the credit and if installment or revolving credit. If this new account shows on the credit with this information, please use the letter to reference the tradeline. The letter should include the submitting bank or broker's inquiry. All letters must be signed by the borrower. ***Soft Pull Reports*** FSB pulls a "soft pull" credit report during the final review of the loan. As the file is being prepped to clear to close a single bureau report is pulled that will verify if new credit has been acquired during the process or if existing balances on credit have increased dramatically. If either of these situations occur, the loan will not be cleared to close until terms of the new credit have been verified or the updated balances on the reports for the existing credit maintain the approved DTI ratios needed for final approval. Additional inquiries on the soft pull will require an additional LOX per the Inquiry Letter Guidance shown above.
Community Property States	**Non-Borrowing Spouse** The mortgagee must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years. **Non-Purchasing Spouse in a Community Property State** Community Property States are as follows. Arizona California Idaho Louisiana Nevada

	New Mexico Texas Washington Wisconsin **If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply** ➢ A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected ➢ Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her. ➢ Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check. ➢ The debts of the non-purchasing spouse must be considered in the qualifying ratios. If the debts are the sole responsibility of the non -purchasing spouse, do not consider debt in the DTI. Refer to the chart below for obligations specifically excluded by state law for AZ, NV and WI. ➢ The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report if the non-purchasing spouse must be included in the qualifying ratios ➢ All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing. ➢ Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute. ➢ Credit history of the non-purchasing spouse should not be the basis for declining the loan **<u>Mortgage Application</u>** ➢ The mortgagee must have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. This includes borrower self-completed mortgage applications. ➢ Non-Borrowing Spouse Community Property State: ▪ The debt of a Non-Borrowing Spouse must also be included on the URLA if the borrower resides in or the property to be purchased is located in a community property state. ▪ The mortgagee must obtain a non-borrowing spouse's consent and authorization where necessary to : ❖ Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).
Manual Underwriting Requirements/Overlays	FSB will manually underwrite an FHA loan as long as the min score requirement is met and the following apply: 1) Min score of 620 (for a No Score borrower see credit section for further information) (***for 600-619 scores, review 600-619 overlays for further requirements located further into this section***)

2) Minimum tradelines for a manual underwrite will be determined by the underwriter. Credit depth is needed to show the borrower's willingness and ability to pay. Analysis will be completed of all tradelines old and opened. If the underwriter determines that further credit profile is needed to support the approval of the borrower, they will condition accordingly. In addition, the Underwriter can require Homebuyer Education in lieu of additional tradelines.
3) 1 months' reserves are required. Reserves will be calculated by PITI payment and must be the borrower's own funds. The reserves cannot be gift funds. If ratio guidance dictates a higher reserve amount needed, then that guidance takes precedence.
4) Verification of Rent always required, if available
5) A pricing adjustment will apply for all manual underwritten FHA files – please see rate sheet for adjustment amount
6) DTI may not exceed 31/43 without compensating factors – see chart for further information on ratios
7) ***When using Gift funds or DPA/Grant funds, any debt ratios that are over 45% must meet manual guidelines for ratios and compensating factors. If no compensating factors are available, max DTI will be 45%.***

Approvable Ratio Requirements (Manual Underwriting)
The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the property and obligated on the Mortgage. Non-Occupant Co-borrower income may not be included.

Manual Underwriting Matrix		
Lowest Min Decision Credit Score	**Max Qualifying Ratios (%)**	**Acceptable Compensating Factors**
620 and above	31/43	No compensating factors required unless AUS shows reserves are required or underwriter determines there is a need.
620 and above	37/47	One of the following: • Verified and documented cash reserves (borrower's own funds) • Minimal increase in housing payment; or • Residual income
620 and above	40/40	No discretionary debt
620 and above	40/50	Two of the following: • Verified and documented cash reserves

		(borrower's own funds) • Minimal increase in housing payment; • Significant additional income not reflected in Effective Income and/or • Residual income

<u>Documenting Acceptable Compensating Factors (reference the above table) (Manual)</u>

<u>Verified and Documented Cash Reserves</u> - Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or
- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's liquid assets as described in FHA guidelines less:

- The total funds required to close the Mortgage. Reserves do not include:
  - Gifts;
  - Borrowed funds from any source; and
  - Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction

<u>Minimal Increase in Housing Payment</u> - A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than $100 or 5 percent, whichever is less; and
- there is a documented 12-month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment Mortgagees may not cite this compensating factor. The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

<u>No Discretionary Debt</u> - No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and

- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months. Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

Significant Additional Income Not Reflected in Effective Income - Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- the Mortgagee must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion. This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

Residual Income - Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) Lenders Handbook - VA Pamphlet 26-7, Chapter 4.9 b and e.

Calculating Residual Income - Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Mortgage Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Non-Taxable Income.

If available, Mortgagees must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, Mortgagees must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the Lenders Handbook - VA Pamphlet 26-7.

	Using Residual Income as a Compensating Factor - To use residual income as a compensating factor, the Mortgagee must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size." ➢ Exception - The Mortgagee may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception. From the table provided in Lenders Handbook - VA Pamphlet 26-7, select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor. Compensating factors cited to support the underwriting decision must be recorded in the Underwriter Comments section of Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary. Documentation supporting the compensating factors cited must be included in the endorsement case binder including, if applicable, a worksheet attached to Form HUD-92900-LT reflecting the calculation of residual income. **Processors and Loan Officers that are using any compensating factors on a manual underwrite are advised to add a note to the underwriter that advises them of the compensating factor(s) that are being used to approve the file.**
600 – 619 Credit Score Overlays	**600 – 619 Credit Score Overlays** This score range requires a pre-review of the file before submission to Underwriting. Please follow these steps to complete the pre-review and get confirmation the file will be accepted into underwriting. *IF the pre-review is not completed prior to submission, the file will be rejected pending the confirmation of the pre-review.* Steps to complete the pre-review: 1. Complete cover sheet specific to 600 – 619 program 2. Email or upload to system file the 1003, credit report, DU findings and LOX for derogatory credit and any other relevant information 3. Email scenarios@flanaganstatebank.com to have the file reviewed. 4. Within 24 hours or less, you will be supplied a denial or acceptance of your loan from FSB 5. Upload the review notice with your submission 6. Please note that the adjustment to the rate for credit scores in this range is -3.5 Overlays **All standard FHA guidelines must be met in addition to these specific overlays** ➢ 1-year minimum job time WITH SAME EMPLOYER. ➢ Homebuyer Education is required and must go through a HUD approved course ➢ Max ratios – limited to 31/43 unless AUS Approve/Eligible is received. A/E must be validated by Underwriting. If refer/eligible is received, compensating factors must be available at prequalification to determine if loan is eligible for a manual underwrite. Management review will determine if loan can proceed with a manual underwrite and ratios may not exceed 31/44.

	➢ Late payments on any tradelines within the most recent 12 months will disqualify the loan from manual underwriting. If a loan receives an approval/eligible the file is eligible to proceed. ➢ 2 months' reserves for PITI required. If ratio guidelines require higher reserves, those reserve requirements will supersede this requirement. No exceptions will be allowed for this requirement. ➢ All collections that are open and active within the most recent 12 months must be paid in full prior to closing. Medical collections may still be disregarded per FHA guidelines** ➢ No open judgments of any kind allowed, including tax liens ➢ No IRS back payment on taxes allowed ➢ Self-employed borrowers, including Sch C, Sch E, Sch F and 1099 employees must have 2 FULL years of documented self-employment history through 2 years of tax returns. ➢ LOX on derogatory credit and to include all derogatory credit that shows on credit report. If LOX identifies financial mismanagement, loan will be declined. ➢ No DTI allowed above 45% in combination with the use of gift funds ➢ No gift funds will be allowed with a single borrower ***FSB reserves the right to require ANY collection to be paid that might have a future effect on our first lien position or the borrower's ability to repay the loan. This includes collections that are outside of this 12-month period identified in our guidelines.* <u>Additional Important Details for Manual Loans and 600-619 Credit Score Loans:</u> ➢ For loans that are ≤ $75,000, the file must be Borrower Paid Compensation ➢ For loans that are MANUFACTURED HOMES and the loan amount is ≤ 100,000, then loan must be Borrower Paid Compensation ➢ If for any reason the loan fails QM/ATR Points and Fees test, FSB will be obligated to deny the file.
Ratios/Debt Calculation	**<u>Business Debt in Borrower's Name (TOTAL and Manual)</u>** When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI calculation, unless the mortgagee can document that the <u>*debt is being paid by the borrower's business*</u>, and the <u>*debt was considered in the cash flow analysis of the borrower's business*</u>. The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis. ➢ Mortgagee must document that the debt is paid out of company funds (e.g., 12 months cancelled checks) and that the debt was considered in the cash flow analysis of the borrower's business. ➢ Debt must show paid by business for a minimum of 12 months. If less than 12 months, the debt must be included in the DTI **<u>30-Day Accounts (TOTAL and Manual)</u>** The mortgagee must verify the borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the borrower's DTI. If the credit report reflects any late

	payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the borrower's monthly debt to be included in the DTI. ➢ Use the credit report to document the balance and document that funds are available to pay off the balance in excess of the funds and reserves required to close the mortgage. **Liabilities – General Guidelines** True co-signed (guarantor) accounts do not have to be included in the debt if underwriter verifies both 12 months on time history and that the payments are being made by the primary obligor. Any pay history reflecting less than 12 months will not allow for the removal of this debt from the ratios. If the credit report does not reflect a monthly payment on any open revolving account, then mortgagee must use the payment shown on the current account statement or 5% of the outstanding balance. Lease payments (particularly auto leases) should typically be included in the DTI regardless of the remaining term **Authorized User** Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless the mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI. **Delinquent Federal Tax Debt** Borrowers with delinquent Federal Tax Debt are ineligible. ➢ Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt ➢ The borrower has made timely payments for at least three months of scheduled payments ➢ The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments ➢ Mortgagee must include the payment amount in the agreement in the calculation of the borrower's DTI ratio ➢ Mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable **Tax Liens (TOTAL and Manual)** Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The payment amount in the agreement must be included in the borrower's DTI. The lien holder must subordinate the tax lien to the FHA-insured mortgage.
Divorce/Child Support	**Child Support – Receipt of to use for income qualification** Receipt of child support must show as consistent and stable to be considered as qualifying income. To document this, FSB will require the following:

1) Proof of terms of child support. This must be verified through a divorce decree or court order. If the original divorce decree amounts have adjusted, we will still require the original documentation along with the most recent updates to the child support amount.
2) If a Divorce Decree is not applicable to the situation, then the court documentation showing the original notice to pay child support should be supplied.
3) If the support is altered in any way over time, it must be in writing through the court and the updates provided with the original court order/divorce decree.
4) Agreements between parties outside of the court system will not be accepted due to the fact the court order takes priority until satisfied.
5) Proof of 6 months' receipt of the payments by the borrower, co-borrower or non-occupant spouse (as applicable). This information must be supplied regardless of how the payment is paid. If through the state, a pay history from the state is sufficient. If paid through another means, we must have documentation to support the receipt of the funds. Cash payments are typically not accepted as they cannot be documented. If the payments are not received consistently, the child support cannot be used as income.
6) If the child support is a Voluntary Agreement and not court ordered, FSB will accept this situation with the following:
   a. 12 months' proof of receipt. The amount must be consistent throughout the history of the payments. Any non-payment or skipped months will not be considered consistent.
   b. Written agreement must be provided that is dated prior to the start of the payment of child support.

Child Support – payment of and included as a debt in the liabilities section of 1003
It must be established that this debt is not delinquent in any way. This is not to be treated any differently from any other debt that exists or could exist for the borrower. Determination of this can be established by the following:
The mortgagee must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement or other legal order.

Garnished payments/Payments made through State

- The Mortgagee must also obtain the Borrower's paystubs covering no less than 28 days to verify whether the borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.
- Amount noted on paystubs or other documentation being used to verify payment amount must match the amount on the court documentation.

Not Garnished/Not Paid through state

- Satisfactory payment history to be established.
- Proof of 3 months payments made as agreed for the most recent time period.
- If any inconsistency in payment history, underwriter may require up to a 12 month history to verify consistency of overall history of payment with no delinquency.

	• Amount being paid for support must match the amount required in the court documents **Collection/Delinquency** For Child Support payments that have collections reporting or delinquency reporting, FSB will require proof that the account has been paid as agreed and is in good standing at the time of the loan. Proof of 3 months of satisfactory payments for the most recent time period must be supplied.
Deferred Loans	**<u>Deferred Obligations (TOTAL)</u>** Deferred Obligations ***(excluding student loans)*** refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. The Mortgagee must include deferred obligations in the Borrower's liabilities. ➢ Documentation - The Mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Mortgagee must obtain evidence of the anticipated monthly payment obligation, if available ➢ Calculation of Monthly Payment • The Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available. • If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment. • Note: Student loans are no longer a part of "Deferred Obligations" section of HUD Handbook 4000.1. Student loans have separate section and calculation/documentation requirements. **<u>Student Loans (TOTAL and Manual) (ML 2016-08)</u>** (The following is mandatory guidance effective for all case numbers assigned on or after June 30, 2016; however, mortgagees may begin using the policy immediately. The revised guidance allows the same calculation criteria to be applied regardless of the student loan payment plan type (e.g., income-based payment plans) or deferral status) The mortgagee must include all student loans in the borrower's liabilities, regardless of the payment type or status of payment. ➢ Required Documentation If the payment used for the monthly obligation is: • Less than 1 percent of the outstanding balance reported on the borrower's credit report, and • Less than the monthly payment reported on the borrower's credit report; The mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor. ➢ Calculation of Monthly Obligation Regardless of the payment status, the mortgagee must use either: • The greater of: ♦ 1 percent of the outstanding balance on the loan; ♦ The monthly payment reported on the borrower's credit report; or

	• The actual documented payment, provided the payment will fully amortize the loan over its term.
REO Property	If a borrower has purchased a primary residence in the past 12 months AND the prior residence is located within 50 miles of the new property, FSB will require the following trailing condition: • Provide copy of updated driver's license and current utility bill reflecting the borrower occupying the subject property If borrower will be selling the REO property FSB requires a copy of the listing agreement or purchase agreement at time of underwriting.

90 Day Resale Rule	**90 Day Resale Prohibition (Waiver expire 12/31/14 per FHA info #14-73**
	Purchase Mortgages – Transaction is prohibited if Seller has owned property and on title less than 90 days at time of the purchase contract or earnest money agreement.
	• The Seller's 90 days is calculated based on the Seller's date of acquisition which is the settlement date of the Seller's purchase of the property
	• The resale date is the date of the sales contract by a buyer intending to finance the property with an FHI insured loan is signed
	
	FHA Regulatory Exemptions – sales transactions exempt from FHA's 90 day rule are as follows:
	• Builder selling a newly built home or building a home for a borrower wishing to use FHA insured financing
	• Property acquired by an employer or relocation agency in connection with the relocation of an employee
	• Resale of property by HUD under HUD's Real Estate Owned (REO) program.
	• Sale of single family properties by other United States Government agencies pursuant to programs operated by these agencies.
	• Sale of property by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions
	• Sale of property acquired by the seller through inheritance
	• Sale of properties by state and federally-chartered financial institutions and government sponsored enterprises
	• Sale of property by local and state government agencies
	• Sale of properties within Presidentially Declared Disaster Areas
	Any subsequent resale of the property described above must meet the 90-day threshold in order for the mortgage to be eligible as security for FHA insurance.
	
	Seller of the property must be on title as the owner of record:
	• To be eligible for a mortgage insured by FHA
	    ▪ Property must be purchased from the owner of record
	    ▪ The transaction may not involve any sale or assignment of the sales contract, and
	    ▪ The lender must obtain documentation verifying the seller is the owner of record

Appraisal Requirements	**<u>Appraisal Validity</u>** Initial Appraisal Validity • The initial appraisal is valid for 120 days on all mortgages—including new construction—from the effective date of the appraisal • The **Effective Date** of the appraisal report is the date the appraiser inspected the property

Initial Appraisal Validity 30-Day Extension

The 120-day validity period of an appraisal may be extended for 30 days at the option of the Mortgagee if:

- The mortgagee loan approval or HUD-issued Firm Commitment is issued prior to the expiration of the original appraisal; or
- The borrower signed a valid sales contract prior to the expiration date of the appraisal

Appraisal Update

- Appraisal update must be performed before the initial appraisal has expired.
- An appraisal cannot be updated if an appraisal extension has been issued.
- The valid period for an updated appraisal is 240 days after the Effective Date of the initial appraisal report.

Appraisal Integrity

- The appraisal report **must** list FHA as an Intended User of the appraisal

Case Numbers

- FHA case number is **assigned to the property**, not to the borrower.
- The original mortgagee must assign the case number to the new mortgagee **immediately** upon the borrower's request
    - The original mortgagee may provide processing documents but is not required to do so.

Transferring Existing Appraisals

- The mortgagee, at the borrower's request, must transfer the appraisal to the second mortgagee within 5 business days.
- The original mortgagee may not charge the borrower a fee for the transfer of any documents
- A fee may be negotiated between the original mortgagee and the new mortgagee. However, a fee for the transfer of documents for Streamline Refinance transactions is not permitted.

Transferring Existing Appraisal – New Borrower

- When an existing appraisal is being used for a different borrower, the mortgagee must:
- Enter the new borrower's information in FHA Connection
- Collect the appraisal fee from the new borrower and refund the fee to the original borrower
- Have the appraiser review the purchase contract and revise the appraisal report for value adjustments accordingly.

Communications with third parties

- Mortgagees may not discuss the contents of the appraisal with anyone other than the borrower.

Mixed Use

- A minimum of 51% of the entire building square footage must be residential use.

	Shared Wells • Shared wells are allowed only when the lender evidences the connection to public or community water system is not feasible and the property is not located in an area where local officials have determined public connection to be feasible. For 2-4 unit properties – appraiser to use FNMA 1025 Small Residential Income Property Appraisal Report Form Appraisal must comply with FHA Appraisal Independence Policy A compliance Certification/Final Inspection is required for follow-up repairs or completion of any new construction loan. Second Appraisal: The second appraisal requirements are as follows: • An FHA roster appraiser must perform the appraisal in compliance with all FHA appraisal reporting • The lender may not use an appraisal completed for a conventional loan even if it was completed by an FHA roster appraiser • The lender may not charge the cost of the second appraisal to the homebuyer The lender must not use this appraisal for case processing and must not enter it into FHA Connection NOTE: The ECOA Valuations Rule requires copies of appraisals and other written valuations to be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.
Appraiser Requirements	Appraisers must be on FHA's approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential The assigned appraiser must perform the physical inspection of the property. He/she may not sign the appraisal performed by another appraiser. Information Required before Commencement of Appraisal The Appraiser must obtain all of the following from the Mortgagee before beginning the appraisal: • A complete copy of the executed sales contract for the subject, if a purchase transaction • The land lease, if applicable • Surveys or legal descriptions, if available • Any other legal documents contained in the loan file; and • A point of contact and contact information for the Mortgagee to that the Appraiser can communicate any noncompliance issues Appraiser must comply with the FHA Appraisal Independence Policy
Assets	Borrower Investment

Purchase Transactions – Sections 203b and 234c

- Minimum down payment is 3.5% of the sale price or appraised value, whichever is less
- The 3.5% cannot be met by borrower-paid closing costs, prepaid expenses, commitment fees or discount points or premium pricing
- Prepaid expenses and/or closing costs may be paid with premium pricing (subject to compensation rules)

Closing costs, prepaid items and other fees may not be applied towards the borrower's Minimum Required Investment (MRI)

Real Estate Tax Proration

The mortgagee must document that the borrower has sufficient assets to meet the MRI and the borrower paid closing costs at the time of underwriting. If the real estate tax credits, seller paid closing costs, etc. cause the funds needed at closing to be less than the MRI, the file will still need documentation of sufficient assets to meet the full MRI. Example -- $100,000 purchase price the MRI = $3.500. If the funds to closing ends up at $2,800 due to the credits, mortgagee must still document $3,500 of acceptable assets.

Employer Assistance: A salary advance cannot be used for funds to close. If a borrower is receiving employer assistance, a salary advancement cannot be considered as cash to close.

Interested Party Contributions (IPCs) / Seller Contributions

Interested Parties may contribute up to **6 percent of the sales price** toward the borrower's origination fees, other closing costs and discount points, and payment of the UFMIP. IPCs that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. IPCs exceeding 6 percent are considered an inducement to purchase. IPCs may not be used for the borrower's MRI. Payment of real estate commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an IPC.

Documentation Required for Gift Funds

Gifts

- Eligible to use toward all down payment, closing costs and prepaids
- FSB approved Down Payment Assistance programs are eligible

Gifts (Personal and Equity)

Gifts refer to the contributions of cash or equity with no expectation of repayment.

Acceptable Sources of Gift Funds

- The borrower's Family Member (see *Identity of Interest Transactions* for Family Member definition)
- The borrower's employer or labor union
- A close friend with a clearly defined and documented interest in the borrower
- A charitable organization
- A governmental agency or public entity that has a program providing homeownership assistance to:

- Low or moderate income families; or
- First-time homebuyers

Any gift of the borrower's MRI may not come from the seller, or any other person or entity who financially benefits from the transaction (directly or indirectly), or anyone who is or will be reimbursed, directly or indirectly, by any of the foregoing parties.

- **Cash on Hand is not an acceptable source of donor gift funds**
- Acceptable Sources of Gifts of Equity
  - Only Family Members may provide equity credit as a gift on property being sold to other Family Members.
- Documentation – The mortgagee must obtain a gift letter signed and dated by the donor and borrower that includes the following:
  - The donor's name, address, and telephone number;
  - The donor's relationship to the borrower
  - The dollar amount of the gift; and
  - A statement that no repayment is required
- The donor must provide a bank statement that shows the gift being withdrawn from their account. A 30 day statement will be required. All large deposits must be sourced according to FHA guidelines.

Documenting the Transfer of Gifts
The mortgagee must verify and document the transfer of gift funds from the donor to the borrower in accordance with the requirements below

- If the gift funds have been verified in the borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account.
- If the gift funds are not verified in the borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, **and** a bank statement showing the withdrawal from the donor's account.

If the gift funds are paid directly to the settlement agent, the mortgagee must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

The mortgagee and its affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a borrower, the mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.
Documentation required on all

Down Payment Assistant Programs

- Single Family, One unit Only

- Second Trust Deed provided by Government Entity
- Non Profit Organizations – Not Allowed
- Must provide the "complete" documents outlining the terms for the DPA 2nd to include, but not limited to:
    - Note of second mortgage
    - Mortgage
    - Terms of approval
    - Confirmation of approval for the DPA funds
    - Proof of HUD approval of DPA organization – provide HUD approval letter
- If not a silent second, terms have to be provided to FSB to calculate into housing and debt to income ratios

When using Gift funds or DPA/Grant funds, any debt ratios that are over 45% must meet manual guidelines for ratios and compensating factors. If compensating factors cannot be met, ratios will be capped at 45%.

Reserves

- 1-2 units (TOTAL)– none
- 1-2 Units (manual) – 2 month
- 3-4 units(manual & Total) – 3 months PITI
- If using "significant reserves" as a compensating factor, a minimum 3 months PITI must be documented. Only retirement accounts accessible for liquidation may be counted as reserves
- Accounts not accessed for liquidation by the borrower until retirement age may not be counted as part of the borrower reserves
- Manual underwrite will require 2 months PITI
- Reserves DO NOT include:
    - The amount of cash taken at settlement in cash-out transactions
    - Incidental cash received at settlement in other loan transactions
    - Gift Funds (not allow for reserves, Manual only)
        - Note: Excess gift funds may be counted as reserves when using Total Approval only
    - Equity in another property, or
    - Borrower funds from any source

Net Proceeds from the sale of Current Home

If the closing on the current home is taking place before the loan will close with FSB, a copy of the fully executed Seller CD from the sale/closing must be presented to underwriting showing the proceeds.

If the closing will be simultaneous, a Preliminary CD from the title company that is closing the transaction showing the expected proceeds from the sale. This needs to be as accurate as possible as any changes in the proceeds upon a Final CD will result in the file being sent back to underwriting for updating.

The underwriter will PTF for the Final CD to be provided at closing for the current home.

Earnest Money Deposit
Cancelled check for earnest money deposit on purchase contract required for sourcing. If cancelled check is not available, bank statement showing withdrawal will be acceptable.

If the EMD check clears after the date of the bank statements provided and the cancelled check is provided, the funds showing on the bank statement will be reduced by the EMD amount.

Large Deposit Definition (HUD Guideline)
For recently opened accounts and recent individual deposits that total more than 1 percent of the purchase price or appraised value (whichever is lower) the deposits must be sourced and documented. The LO must also verify that no debts were incurred to obtain part or all of the MRI. (Minimum required investment) Large Deposits are at the discretion of the underwriter for sourcing. 1% references the aggregate total of deposits outside of identifiable payroll deposits and/or 1% for a single deposit.

Patterns of a deposit that are both recurring and non-payroll related will require an explanation and sourcing.

Joint Funds Access
For any FHA loan, if the Borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

Sale of Personal Property
Documentation must be obtained evidencing:
- Proof of ownership
- Third party verification of the value of the asset
- Evidence of sale/bill of sale of the asset
- Proof of receipt of funds

Business Funds
- If business funds are used for down payment, closing costs and/or reserves, the borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds
- The impact of the withdrawal must be considered in the analysis of the business based on the personal and/or business tax returns. Underwriter must complete a cash flow analysis of the business. The analysis must indicate that withdrawal of funds will not have a detrimental effect on the borrower's business. A CPA letter will not suffice.

Retirement Accounts
When using a retirement account for assets, reserves or down payment funds, the most recent available statement (monthly or quarterly) must be provided. 60% of the funds available on the statement will be used towards assets less any outstanding loan balances against the account.

If the borrower is drawing against the account for funds to close, evidence of liquidation is required to include:

	▪ Terms of withdrawal ▪ Proof of amount withdrawn ▪ Copy of check provided to borrowers ▪ Copy of bank statement in deposited account to show updated funds available. **Bank Printouts** These are acceptable, however, FSB does require the following for printout statements: ▪ May be online statements or from the bank ▪ If bank – teller must stamp, sign and date ▪ No gaps in history. When presenting a printout in conjunction with a bank statement, no gaps between the two are allowed. ▪ Statements must include borrower name, account number, depository name at a minimum ▪ A partial account number may be present on the statement, but must be identifiable as the borrowers account through matching numbers to a full account statement or cancelled check **Bank Statements** Two months bank statements must be presented with initial submission. No gaps between the statements are allowed. Statements with NSF or Overdraft fees showing will require an LOX as to the reason for the overdrafting of the account. NSF fees will require a manual downgrade. If FSB has been provided bank statements, a VOD to update cash to close will be allowed. A standalone VOD is not allowed and can only be used to follow up with provided bank statements.
Assumptions	Permitted – credit worthy borrowers only
Borrower Eligibility	***Eligible*** All Borrowers, including permanent resident aliens, must have a valid social security number. Validate the social security number using any one of the following: ➢ Social Security Card ➢ Paystub ➢ W-2 ➢ Tax Transcript ➢ Validation from SSA ➢ Non-Permanent Resident Aliens – with correct and proper documentation per HUD guidelines. No Exceptions Permanent Resident Aliens ➢ Same eligibility requirements as US Citizens ➢ Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS) formerly the INS ➢ Copy of the Alien Registration Receipt Card (Resident Alien Card), I-551 Non-permanent Resident Alien ➢ Property will be borrower's principal residence ➢ Borrower has a valid SSN ➢ Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS

	➢ Must have proof of a min of 3 renewals for work permit per FHA Guidelines ➢ Borrower satisfies the same requirements, terms and conditions of those for US Citizens, including tax return requirements. ***Ineligible*** ➢ Foreign Nationals ➢ Inter Vivos Trust ➢ Land Trusts ➢ DACA – Deferred Action for Childhood Arrival This immigration policy started in June 2012 allows certain undocumented immigrants to the U.S. who entered the country as minors to receive a renewable two-year period of deferred action from deportation and eligibility for a work permit. The program does not provide a legal status or a path to citizenship. Borrowers in the U.S. via DACA are not eligible for FHA loans
Co-borrower/Co-Signors	**Co-Borrower** ➢ Co-borrower **must take title** to the property ➢ Co-borrower must sign all documents including the Loan Application, Note and the Mortgage/Deed of Trust ➢ Income, assets and debts from all borrowers (including co-borrowers) are used in qualifying ➢ Co-borrower must have a principal residence in the U.S. ➢ Co-borrower **does not** have to occupy the subject property. See below. **Non-occupant co-borrowers must always have a qualifying credit score** **Non-occupant co-borrowers are not eligible if the occupying borrower or co-borrower has no credit score** <u>Non-Occupying Borrower Transaction: Max LTV</u> Non-occupying borrower transactions are limited to 75% LTV. The LTV can be increased to a maximum of 96.5% if the borrowers are Family Members, provided the transaction does not involve: ➢ A Family Member seller to a Family Member who will be a non-occupying co-borrower; or ➢ A transaction on a two to four-unit property A party who has a financial interest in the transaction, such as the seller, builder or real estate agent, may not be a co-borrower or co-signer. Exceptions may be granted when the party with the financial interest is a Family Member. **Non-occupant co-borrowers must always have a qualifying credit score** **Non-occupant co-borrowers are not eligible if the occupying borrower or co-borrower has not credit score** Co-Signers - Ineligible
Documentation	Document as determined by AUS findings, FHA Manual and FSB guidelines. ***Note on Documentation: Please do not highlight with colored highlighter and copy or scan document. The documents are difficult to read for our underwriters and staff.***

Handling of Documents

- Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through any interested party, or the borrower.
- This policy includes asset documentation

Credit docs expire after 120 days

Mortgage Application

- The mortgagee must have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. This includes borrower self-completed mortgage applications.
- Non-Borrowing Spouse Community Property State:
  - The debt of a Non-Borrowing Spouse must also be included on the URLA if the borrower resides in or the property to be purchased is located in a community property state.
  - The mortgagee must obtain a non-borrowing spouse's consent and authorization where necessary to :
    - Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).
- Mortgage loan applications must be executed in the legal names of all parties, including the:
  - Borrower(s)
  - Loan Originator
- Mortgage applications must be executed in the name of one or more individuals. This includes trusts.
- Government-issued Photo ID:
  - The mortgagee must include a statement that they have verified the borrower's identity using a valid government-issued photo identification prior to endorsement of the mortgage; or
  - The mortgagee may choose to include a copy of such photo identification in the case binder.

Income and asset documents must be dated within 30 days of closing

Electronic Signatures are allowed. Must include Transaction History from e-sign company to validate electronic signatures.

Title commitment must be within 60 days of closing. A gap letter is acceptable for use.

CPL must be within 60 days of closing with a gap letter being acceptable.

Homeowners Insurance must be valid for 1 year for purchase transactions at the time of closing. Binder/Policy must include FSB's mortgagee clause, policy number, premium amount, and dwelling coverage to be at least loan amount unless it meets certain

	exceptions. A quote is acceptable for initial underwriting of the file, but for a file to receive CTC a binder or policy must be in the file. Flood Insurance – amount of coverage must be equal to the lesser of either: • The outstanding balance of the mortgage, less estimated land costs, or • The max amount of the NFIP insurance available with response to the property improvements Electronic signatures are allowed per FHA Mortgagee Letter 2014-03 EXCEPT for closing documents. FSB does not allow electronic signatures on any closing documents. All documents provided at closing for signature must have original signatures. Electronic signatures on sales contracts are not acceptable when: ➢ A Power of Attorney (POA) is involved, or ➢ A sales contract requires a notary **Power of Attorney** POA's must be reviewed by management on all loans using this feature. Please email POA for review to mtgsupportcenter@flanaganstatebank.com prior to CTC. POA's not allowed on Cash Out loans
Escrow Holdback for Repairs	Escrow repair holdback agreement to be fully executed by all parties contributing to the holdback and the Originating Loan Officer. Updated form is available at www.fsbtpo.com. ➢ Allowed up to $5000. Max amount must include bid for repairs and 150% of bid. ➢ Can only include repairs noted by the appraiser to bring home to HUD requirements. ➢ Escrow Holdback Agreement must be signed by the borrower and seller (as applicable) and Loan Officer ➢ Final Inspection and final invoice required to release funds ➢ Repairs not to exceed 30 days to complete ➢ Repairs can only be completed by a licensed contractor or if state does not require licensing, contractor must be verifiable and have valid insurance. ➢ Loan must be locked through closing of the loan ➢ Repairs cannot be completed by the borrower – no exceptions Weather related repairs will be acceptable but must be completed at the first available opportunity or a penalty may be incurred. ➢ Weather related repairs will require 2 bids from licensed contractors. If licensing is not required in a state, the bids must be from a professional contractor. Valid insurance may be requested from the contractor. ➢ The higher bid will be used for the holdback. ➢ 150% of the higher bid will be used, regardless of who is providing the funds at closing. ➢ A Final Inspection for the repairs will be required to release funds ➢ Final Inspection with Final Invoices to be sent to rebeccamoorehead@flanaganstatebank.com for approval to release funds

	FHA loans do not allow the repair amounts to be included in the loan amount. All funds must come from the Seller or Buyer or a combination of the two.
Identity of Interest Transactions	An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members. ➢ Business Relationship refers to an association between individuals or companies entered into for commercial purposes. Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: ➢ Child, Parent or Grandparent • A child is defined as a son, stepson, daughter or stepdaughter • A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent ➢ Spouse or domestic partner ➢ Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption ➢ Foster child ➢ Brother, Step-brother ➢ Sister, Step-sister ➢ Uncle or Aunt ➢ Son-in-law, daughter-in-law, father-in-law, brother-in-law or sister-in-law or the borrower ➢ Note – “Cousins” are not considered family members for this definition Identity of Interest transactions may result in a reduced maximum loan-to-value limitation. **Maximum LTV for Identity-of-Interest and Tenant/Landlord Transactions** ➢ The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85 percent. ➢ The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent. ➢ Exceptions to the Maximum LTV The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances. • Family Member Transactions - The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence: ❖ the Principal Residence of another Family Member; or ❖ a Property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required. • Builder’s Employee Purchase - The 85 percent LTV restriction may be exceeded if an employee of a builder, who is not a Family Member, purchases one of the builder’s new houses or models as a Principal Residence.

	• Corporate Transfer - The 85 percent LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee. • Tenant Purchase - The 85 percent LTV restriction may be exceeded if the current tenant purchases the Property where the tenant has rented the Property for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required.
Installment Debts with <10 payments	May be excluded from ratios only if: • They have remaining cumulative payments of less than or equal to 5% of the borrower's gross monthly income and • The borrower may not pay the debts down to achieve this percentage
Income Documentation	*Please note: if income submitted to FSB is not adequate to calculate the borrower's income/DTI, the file will be suspended for the appropriate documentation.* **Part Time Income** Two years of uninterrupted part-time income is required. This is referencing the situation where a borrower carries a FULL TIME position AND a PART TIME position at the same time. Then this section must be met to use both incomes to qualify. ▪ Average the income over the prior two years ▪ Or, use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate **Self Employed Income (Total and Manual)** ➢ Self-Employment Income refers to income generated by a business in which the Borrower has a 25% (percent) or greater ownership interest. There are four basic types of business structures. They include: • Sole Proprietorships; • Corporations; • Limited Liability or "S" Corporations; and • Partnerships ➢ Minimum Length of Self-Employment • FSB will consider Self Employment income if the Borrower has been self-employed for at least two years • If the Borrower has been self-employed between one and two years, FSB may only consider the income as Effective Income IF the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years ➢ Stability of Self-Employment Income • Income obtained from businesses with annual earning that are stable or increasing is acceptable. If the income from the businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee must downgrade and manually underwrite. ❖ For a MANUAL UNDERWRITE, if the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the mortgagee must document that the

business income is now stable. A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the borrower qualifies utilizing the reduced income.

- Required Documentation
  - (TOTAL) Individual and Business Tax Returns - The Mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules. The Mortgagee must obtain the Borrower's business tax returns for the most recent two years unless the following criteria are met:
    - individual federal income tax returns show increasing Self-Employment Income over the past two years;
    - funds to close are not coming from business accounts; and
    - the Mortgage to be insured is not a cash-out refinance.
  - (Manual) Individual and Business Tax Returns - The Mortgagee must obtain signed, completed individual and business federal income tax returns for the most recent two years, including all schedules.
  - (TOTAL and Manual) Profit & Loss Statements and Balance Sheets - The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income.
    - If income used to qualify the Borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS
- Calculation of Effective Income - The Mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in HUD Manual 4000.1, Appendix 2.0 – Analyzing IRS Forms.
  - The Mortgagee must calculate Self-Employment Income by using the lesser of:
    - The average gross Self-Employment Income earned over the previous two years; or
    - The average gross Self-Employment Income earned over the previous one year

Question: If a loan application is dated May 1st and the last tax filing was for the previous calendar year, do we need a year-to-date Profit and Loss statement for a self-employed borrower?
Answer: Yes, no more than one calendar quarter may elapse without income documentation.

Mortgage Credit Certificates (MCC) are not allowed for qualifying income

Capital Gains and Losses (Total and Manual)

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

- Required Documentation – three years' tax returns are required to evaluate an earnings trend. If the trend:
    - Results in a gain, it may be added as Effective Income; or
    - Consistently shows a loss, it must be deducted from the total income

Frequent Job Changes

If the borrower has changed jobs more than 3 times in the prior 12 months, or has changed lines of work, the lender must obtain:

- Transcripts of training and education demonstrating qualification for the new position, or
- Employment documentation evidencing continual increases in income and/or benefits

Hourly Earnings Calculation

- If the hours (per the paystubs and YTD calculation) do not vary, use the hourly rate
- If the hours vary, use a 2 year average
- If the hours vary and there is a documented increase in pay rate, use a 12 month average of hours at the current pay rate

Overtime and Bonus Income Calculation

- The Mortgagee may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.
- Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
- For employees with Overtime or Bonus Income, the Mortgagee must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the Mortgagee must use the current year's income

Commission Income

This income must have been earned for at least 1 year in same or similar line of work and be likely to continue.

Calculate by subtracting unreimbursed business expenses from the lesser of:

- The average net commission earned over the past 2 years (or however long it's been earned), and

	• The average income earned over the prior 1 year Unreimbursed expenses must be subtracted from the gross commission income. Unreimbursed expenses are to be calculated by averaging the figures from the 2106 for the past two years. If the borrower reports unreimbursed expenses for only the previous year and not for a 2-year history, then the average is to be based on a 12-month period. Any unreimbursed expenses that are reporting on tax returns, regardless of the income type will result in a reduction of the effective income as shown on the borrowers 2106 or Schedule A. **<u>Rental Income – Property Being Vacated by the Borrower (Total and Manual)</u>** If Rental Income is being derived from the Property being vacated by the Borrower, this is acceptable unless the home being vacated has an FHA loan on it. Then the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee must obtain: ➢ A lease agreement of at least one year's duration after the Mortgage is closed ➢ Evidence of the payment of the security deposit or first month's rent ➢ An appraisal evidencing market rent and that the borrower has at least 25 percent equity in the property • The appraisal is not required to be completed by an FHA Roster Appraiser **<u>Rental Income – HOC Vacancy and Maintenance Factor</u>** Note: FHA no longer uses a variable HOC-specific vacancy and maintenance factor. It is now fixed at 25%. **<u>Rental Income Received from Subject Property (TOTAL)</u>** Rental Income Two- to Four-Units The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases. ➢ Calculation of Effective Income - The Mortgagee must add the net subject property Rental Income to the Borrower's gross income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income. To calculate the effective income the Mortgagee must use: ▪ the monthly operating income reported on Freddie Mac Form 998; or ▪ 75 percent of the lesser of: ❖ fair market rent reported by the Appraiser; or ❖ the rent reflected in the lease or other rental agreement. See Property Types / Eligible 3-4 Units / Self-Sufficiency Rental Income Eligibility for loan restrictions on 3-4 unit properties **See Property Types/Eligible 3-4 Units/Self-Sufficiency Rental Income Eligibility for loan restrictions on 3-4 unit properties.** **<u>Rental Income from Other Real Estate Holdings (TOTAL)</u>**

Limited or No History of Rental Income Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

- <u>Two- to Four-Units</u>
  The Mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.
- <u>One Unit</u>
  The Mortgagee must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report, Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent and, if available, the prospective lease.

<u>Calculation of Effective Net Rental Income (limited or no history)</u>
To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
  - 75 percent of the lesser of fair market rent reported by the Appraiser; or
  - the rent reflected in the lease or other rental agreement.

<u>History of Rental Income</u>
The Mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.
Calculation of Effective Net Rental Income (with history of net rental income)

- The Mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.
- Depreciation shown on Schedule E may be added back to the net income or loss.
- If the Property has been owned for less than two years, the Mortgagee must annualize the Rental Income for the length of time the Property has been owned.
- For Properties with less than two years of Rental Income history, the Mortgagee must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.
- Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

<u>Disability Benefits (TOTAL and Manual)</u>

- The Mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

- If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.
- If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.
- Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

Social Security Disability (TOTAL and Manual)

- For Social Security Disability income, including Supplemental Security Income (SSI), the Mortgagee must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:
  - federal tax returns;
  - the most recent bank statement evidencing receipt of income from the SSA;
  - a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
  - a copy of the Borrower’s form SSA-1099/1042S, Social Security Benefit Statement

VA Disability - Form 26-8937 is not required – Temporary Waiver (TOTAL and Manual)

- FHA is temporarily waiving its requirement for mortgagees to obtain VA Form 26-8937, Verification of VA Benefits, when documenting a borrower’s VA disability benefits. The waiver will remain in place until FHA communicates any changes in the waiver’s status in the future. FHA still requires proof from one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the VA

Private Disability (TOTAL and Manual)

- For private disability benefits, the Mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the insurance provider

Alimony, Child Support, and Maintenance Income (TOTAL and Manual)

The Mortgagee must obtain a fully executed copy of the Borrower’s final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

- When using a final divorce decree, legal separation agreement or court order, the Mortgagee must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

- The Mortgagee must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
- The Mortgagee must provide evidence that the claimed income will continue for at least three years.
- The Mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
- When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.
- When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.
    - If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, the Mortgagee must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, the Mortgagee must use the average over the time of receipt

Retirement Income (TOTAL)

Social Security Income (TOTAL)

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA *other than disability income*.

- Required Documentation - The Mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment. For SSI, the Mortgagee must obtain any one of the following documents
    - federal tax returns;
    - the most recent bank statement evidencing receipt of income from the SSA;
    - a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
    - a copy of the Borrower's form SSA-1099/1042S, Social Security Benefit Statement.

In addition to verification of income, the Mortgagee must document the continuance of this income by obtaining from the Borrower:

(1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income or

(2) an equivalent document that establishes award benefits to the Borrower (equivalent document).

(3) If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee must consider the income effective and reasonably likely to continue. The Mortgagee may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

The Mortgagee must use the current amount of Social Security Income received to calculate Effective Income

Pension (TOTAL and Manual)

Pension refers to income received from the Borrower's former employer(s).

- Required Documentation - The Mortgagee must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years.

The Mortgagee must obtain the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; and
- a copy of the Borrower's Pension/retirement letter from the former employer or current benefits administrator
- The Mortgagee must use the current amount of Pension income received to calculate Effective Income.

Individual Retirement Account and 401(k) (TOTAL and Manual)

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA/401(k).

- Required Documentation - The Mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.
- The Mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income.
- For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

Non Taxable Income (Grossing Up) (Total and Manual)

Non -Taxable income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- Some portion of Social Security Income
- Some federal government employee Retirement income
- Railroad Retirement benefits

- ➢ Some state government retirement income
- ➢ Certain types of disability and Public Assistance payments
- ➢ Child support
- ➢ Military allowances; and
- ➢ Other income that is documented as being exempt from federal income taxes

The Mortgagee must document and support the amount of income to be Grossed UP for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

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

Military Income (TOTAL and Manual)

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The Mortgagee **may not use military education benefits** as Effective Income. The Mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two-year work history prior to the absence from employment using standard or alternative employment verification.

Temporary Income Reduction

For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, lenders may consider the Borrower's current income as effective income, IF it can verify and document that:

- The borrower intends to return to work
- The borrower has the right to return to work, and

	• The borrower qualifies for the mortgage taking into account any reduction of income due to the circumstances For borrowers returning to work before or at the time of the first mortgage payment due date, the mortgagee may use the borrower's pre-leave income For borrower's returning to work after the first mortgage payment due date, the mortgagee may use the borrower's current income plus available surplus liquid asset reserves above and beyond any required reserves as an income supplement up to the amount of the borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus reserves divided by the number of months between the first payment due date and the borrower's intended date of return to work. Required Documentation - The Mortgagee must provide the following documentation for Borrowers on temporary leave: • a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return; • documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and • documentation of sufficient liquid assets, in accordance with FHA guidelines, used to supplement the Borrower's income through intended date of return to work with current employer. **Expected Income (TOTAL and Manual)** Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing. • The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business. • Required Documentation - The Mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. The documentation can either be a contract for employment or a note on letterhead from the employer that is signed and dated. Whichever document is used should include the terms of the employment and start date. A trailing document will be required for a Verbal VOE and paystub. If the borrower's first payment is due prior to the borrower's first payment date the borrower will be required to have reserves to cover their monthly expense for that time period. For expected Retirement Income, the Mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing. • Income is calculated in accordance with the standards for the type of income being received. The Mortgagee must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.
Internet Links	To access Mortgagee Letters, National HOC Reference Guide, HOC Letters, Handbooks, go to: **http://portal.hud.gov/hudportal/HUD?src=/groups/lenders**
Limitations on Other Real Estate Owned	To prevent circumvention of the restrictions on FHA-insured mortgages to investors, **FHA generally will not insure more than one mortgage for any borrower**

(transactions in which an existing FHA mortgage is paid off and another FHA mortgage is acquired are acceptable). Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance except under the situations described below. Properties previously acquired as investment properties are not subject to these restrictions.

FHA will not insure a mortgage if FHA concludes that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties, even if the property to be encumbered will be the only one owned using FHA mortgage insurance.

FHA does not object to homebuyers using FHA mortgage insurance more than once if compatible with the homebuyer's needs and resources as follows (HUD Handbook 4000.1)

Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower
The table below describes the ONLY circumstances in which a Borrower with an existing FHA-insured Mortgage for a principal residence may obtain an additional FHA-insured Mortgage on a new principal residence

Policy Exceptions	**Eligibility Requirements**
Relocation	A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is: • relocating or has relocated for an employment-related reason; **and** • establishing or has established a new Principal Residence in an area **more than 100 miles** from the Borrower's current Principal Residence. If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.
Increase in family size	A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.
Vacating a jointly-owned Property	A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.
Non-occupying co-Borrower	A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for an FHA-insured Mortgage on a new Property to be their own Principal Residence.

Under no circumstances may investors use the exceptions described above to circumvent FHA's ban on loans to private investors and acquire rental properties through purportedly purchasing "principal residences".

Considerations in determining the eligibility of a borrower for one of these exceptions are the length of time the previous property was owned by the borrower and the circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage. In all other cases, the purchasing borrower either must pay off the

	FHA-insured mortgage on the previous residence or terminate ownership of that property before acquiring another FHA-insured mortgage
Loan Amount	Minimum Loan Amount: $30,000 Loan Amount below $50,000 allowed on O/O, Purchase & Rate/Term only
Mortgage Insurance	Mortgage Insurance is required on all loans. ➢ The section of the Act under which the loan will be insured determines the mortgage insurance to be used. **Sections 203b, and 234c (Condos)** ➢ Up Front MIP (UFMIP) is required ➢ Monthly MIP is required – see charts Refer to the *FHA Mortgage Insurance Premium Matrix* (attached) for details on UFMIP and monthly MIP
Occupancy	Primary Residence **Military Personnel Eligibility** Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service. ➢ The Mortgagee must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property. ➢ The Mortgagee must obtain the Borrower's intent to occupy the subject Property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.
Pre-Payment Penalty	Not permitted. However, if refinancing and the payoff check for the existing loan is not received by the servicing lender by the first day of the month, the lender may collect interest on the existing loan through the end of the month.
Property Inspection	This section pertains to property inspections required as part of 90 resale waiver. Required if the resale price of the property is greater than 20 percent above the seller's acquisition cost ➢ Property inspection report must be provided to the buyer before closing ➢ The borrower, lender, or mortgage broker may order the property inspection If the inspection report notes repairs are required because of structural or "health and safety" issues, those repairs must be completed prior to closing. After completion of repairs to address structural or "health and safety" issues, the inspector must conduct a final inspection to determine if the repairs have been completed satisfactorily and eliminated the structural or "health and safety" issues. The borrower, lender or mortgage broker may order the final inspection
Monthly Mortgage Insurance	All mortgages require UFMIP (Upfront Mortgage Insurance Premium) All mortgages: 175 basis points (bps) (1.75% of the Base Loan Amount) ➢ Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 ➢ Hawaiian Home Lands (Section 247) ➢ Indian Lands (Section 248)

Effective for all loans closing January 27, 2017 or after

Base Loan Amt	LTV	MIP (bps)
Less than or equal to $625,500	>95%	85 bps
	≤95%	80 bps
Greater than $625,500	>95%	60 bps
	≤95%	55 bps
Less than or equal to $625,500	≤ 90.00%	45 bps
	> 90.00%	70 bps
Greater than $625,500	≤ 78.00%	25 bps
	>78% but ≤90%	25 bps
	>90.00%	50 bps

Streamline or Simple Refinance of previous Mortgage endorsed on or before May 31, 2009

Streamline, Simple Refinance of previous Mortgage endorsed on or before May 31, 2009			
Term > 15 Years			
Base Loan Amt.	LTV	Previous MIP	New MIP
All Loan Amounts	≤ 90.00%	55 bps	55 bps
All Loan Amounts	> 90.00%	55 bps	55 bps
Term ≤ 15 Years			
Base Loan Amt.	LTV	Previous MIP	New MIP
All Loan Amounts	≤ 90.00%	55 bps	25 bps
All Loan Amounts	> 90.00%	55 bps	25 bps

Refinance Premium Information

Upfront Mortgage Insurance Premium (UFMIP) Refunds

If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced Mortgage, according to the refund schedule shown in the table below:

Upfront Mortgage Insurance Premium Refund Percentages												
Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34
3	32	30	28	26	24	22	20	18	16	14	12	10

Secondary Financing/Down Payment Assistance Programs

Down payment assistance is allowed per FHA guidelines.

Secondary financing funds may be provided by a Family Member 1

- 100% of funds for down payment, closing costs, prepaid expenses and discount points may be from a secured or unsecured loan from a family member.

Refer to HUD Handbook 4000.1 for specific rules and documentation requirements for Secondary Financing.

	Below are CLTV limitations for secondary financing based on the provider: ➢ Governmental Entities – no maximum CLTV ➢ HUD-Approved Nonprofits – no maximum CLTV ➢ Family Member – CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100% of the Adjusted Value ➢ Private Individuals and Other Organizations – CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit Documentation that is ALWAYS required, but not limited to, for underwriting review prior to approval: ➢ Terms of approval for DPA funds ➢ Copy of mortgage ➢ Copy of Note ➢ HUD Approval letter, as applicable ➢ Approval notice from DPA or secondary financing source Footnotes: 1 Family Member – see Identity of Interest Transactions for definition of Family Member
Special Requirements/Restrictions	Maximum 5 days interest credit on FHA purchase transactions **Upfront Mortgage Insurance Premium (UFMIP)** The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than $1.00. The mortgage amount must be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash. HUD REO properties: Refer to link for State specific program updates and availability http://portal.hud.gov/portal/page/portal/HUD/topics/hud_homes **NOTE: The Energy Efficient Mortgage Program is not available.** Form 4506-T must be processed prior to underwriting. ➢ A new IRS Form 4506 T is required to be signed with the closing package as well as at application even when the form has been processed. **Mortgage Credit Certificate (MCC)/Section 8 Vouchers** ➢ Ineligible **Wood Destroying Insects/Organism Requirements** FHA no longer mandates automatic inspections. Inspections are required if: ➢ Evidence of active infestation ➢ Mandated by the state or local jurisdiction ➢ Customary to the area ➢ At lender’s discretion

	For existing properties, the mortgagee must confirm that the property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, the mortgagee must obtain such inspection and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms.
Underwriting	Loans must be underwritten by a DE Underwriter The mortgagee must obtain the borrower's initial completed SIGNED URLA (FNMA 1003/FHLMC Form 65) and page 2 of the form HUD 92900-A BEFORE underwriting the mortgage application. Underwriting method is either via TOTAL Scorecard or Manual Underwriting May follow AUS Approve decision and documentation requirements. ➢ Refer to *Credit* for additional restrictions **AUS (TOTAL Scorecard)** ➢ All loans must be submitted through FHA TOTAL Scorecard except Streamline loans. ➢ AUS Approve – All loan data submitted to AUS for Approve/Accept Finding must be accurate and validated. There should be no information that would cause a "manual downgrade" of the loan. ➢ AUS Refer – Loan must meet manual underwriting guidelines **<u>Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)</u>** The mortgagee must downgrade and manually underwrite any mortgage that received an Approve/Accept recommendation if: ➢ The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard ➢ Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage ➢ The borrower has $1000 or more collectively in disputed derogatory credit accounts • Disputed derogatory accounts of non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a REFER ➢ The date of the borrower's bankruptcy discharge as reflected in bankruptcy documents is within two years from the date of case number assignment ➢ The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale) ➢ The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure ➢ The borrower has undisclosed mortgage debt ➢ Business income shows a greater than 20 percent decline over the analysis period ➢ The mortgage payment history requires a downgrade as defined in Housing Obligations/Mortgage Payment history • <u>Purchase and No Cash Out Refinance</u>: The mortgage must be downgraded to a REFER and manually underwritten if any

	mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects: ❖ Three or more late payments of greater than 30 days ❖ One or more late payments of 60 days plus one or more 30 day late payments; or ❖ One payment great than 90 days late A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments • Cash-Out Refinance Transactions: The mortgage must be downgraded to a REFER and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects: ❖ A current delinquency; or ❖ Any delinquency within 12 months of the case number assignment date A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments Underwriting method is either via Total Scorecard or Manual Underwriting. These methods are mutually exclusive. Files are underwritten 100% with selected/required method. There is no “mixing and matching” portions of a Total Scorecard approval with Manual Underwriting Flexibilities and vice-versa.