

FHA Purchase Product Summary (01/13/23)

Overlays are identified with yellow highlighting

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Eligibility Matrix

ELIGIBILITY MATRIX					
Units	Transaction Type	Credit Score	LTV	CLTV	DTI
TOTAL Accept/Approve					
1-4	Purchase	620	96.5%	105%	AUS
		580			AUS1
Refer and Manual Underwrite					
1-4	Purchase	600	96.5%	105%	50%2,3
1 DTI > 50% requires at least one of the following compensating factors <ul style="list-style-type: none"> • Reserves <ul style="list-style-type: none"> ◦ 1-2 units: 3 months ◦ 3-4 units: 6 months • Residual income in excess of requirements per VA • Significant income not included in qualifying income 					
2 DTI > 31/43 requires compensating factors in accordance with FHA guidelines					
3 DTI > 45%: gift funds not permitted					

FHA HUD REO ELIGIBILITY MATRIX					
Units	Transaction Type	Credit Score	LTV	CLTV	DTI
TOTAL Accept/Approve					
1-4	Purchase	620	96.5%	105%	AUS
		580			AUS1
	\$100 Down	640	Adjusted Value - \$100		AUS
Refer and Manual Underwrite					
1-4	Purchase	600	96.5%	105%	50%2,3
	\$100 Down	640	Adjusted Value - \$100		
Fixed Rate only 1 DTI > 50% requires at least one of the following compensating factors <ul style="list-style-type: none"> • Reserves <ul style="list-style-type: none"> ◦ 1-2 units: 3 months ◦ 3-4 units: 6 months • Residual income in excess of requirements per VA • Significant income not included in qualifying income 					

- 2 DTI > 31/43 requires compensating factors in accordance with FHA guidelines
- 3 DTI > 45%: gift funds not permitted

FHA 203(h) ELIGIBILITY MATRIX					
Units	Transaction Type	Credit Score	LTV	CLTV	DTI
TOTAL Accept/Approve					
1	Purchase	640	100%	NA	AUS
		600			AUS1
Refer and Manual Underwrite					
1	Purchase	600	100%	NA	50%2,3

Fixed Rate only

- 1 DTI > 50% requires at least one of the following compensating factors

- Reserves
 - 1-2 units: 3 months
 - 3-4 units: 6 months
 - Residual Income (RI) in excess of VA RI requirements
 - Significant income not included in qualifying income

- 2 DTI > 31/43 requires compensating factors in accordance with FHA guidelines
- 3 DTI > 45%: gift funds not permitted

Loan Terms

- Fixed Rate: 10- to 30-year terms in annual increments
- ARMs: 30-year term

Loan Products

Product Codes	Product Description
FF15	FHA Fixed Rate 11-15 years
FF20	FHA Fixed Rate 16-20 years
FF25	FHA Fixed Rate 21-25-years
FF30	FHA Fixed Rate 26-30 years
FF30B1	FHA Fixed Rate 16-30-year 1/0 Buydown
FF30B15	FHA Fixed Rate 16-30 year 1.5-.5 Buydown
FF30B2	FHA Fixed Rate 16-30-year 2/1 Buydown
FREOF30	FHA Fixed Rate HUD \$100 Down 16-30 years
F2030H15	FHA Fixed Rate 203(h) 11-15 years
F203H30	FHA Fixed Rate 203(h) 16-30 years
FHBF15	FHA Fixed Rate High-Balance 11-15 years
FHBF30	FHA Fixed Rate High-Balance 16-30 years
FHBF30B1	FHA Fixed Rate High-Balance 16-30-year 1/0 Buydown
FHBF30B15	FHA Fixed Rate High Balance 16-30 year 1.5-.5 Buydown
FHBF30B2	FHA Fixed Rate High-Balance 16-30-year 2/1 Buydown
FREOHB30	FHA Fixed Rate High-Balance HUD \$100 Down 16-30 years
F203HHB15	FHA Fixed Rate 203(h) High-Balance 11-15 years
F203HHB30	FHA Fixed Rate 203(h) High-Balance 16-30 years
FT5	FHA ARM 30-year term
FHBT5	FHA ARM High-Balance 30-year term

Eligible Programs

- 203(b) 1-4 Family Home Mortgage Insurance program
- HUD REO Program
 - HUD REO \$100 Down REO Program
 - HUD REO Escrow for Repair
- FHA 203(h) Mortgage Insurance for Disaster Victims: Follow standard guidelines except for what's noted in this product summary and Chapter 2A Eligibility-FHA203(h) Mortgage Insurance for Disaster Victims

ARM Information

Index	One Year Treasury Bill per the Wall Street Journal			
Margin	2.00%			
Life Cap	5%			
Life Floor	The Floor is the Margin			
Interest Rate Caps and Adjustments	Product	First	Subsequent	Lifetime
	5/1	1%	1%	5%
Change Date	5/1	The first Change Date is the 61st payment due date. Subsequent Change Dates are every twelve months thereafter		
Conversion Option	Not available			

HPML

Permitted

QM Rebuttable Presumption

- **≥ 620 Credit Score**
 - AUS Approve/Accept
 - Max 43% DTI or minimum 120% VA Residual Income
- **<620 Credit Score**
 - AUS Approve/Accept
 - Maximum 43% DTI

Loan Amount

- **Min \$25,000 loan amount**
- Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county
- Total Loan Amount with financed UFMIP may exceed the maximum statutory loan amount
- Min loan amounts for FHA High-Balance products is based on the Base Loan Amount and not the Total Loan Amount that includes financed UFMIP
- Total Loan Amount must be rounded down to the nearest \$1.00
- Max Base Loan Amount is calculated as the Adjusted Value multiplied by the appropriate LTV factor

Underwriting

- All loans must be submitted to AUS
 - Approve or Accept/Eligible per FHA guidelines
 - 203(h): May receive an ineligible; ineligibility due to “Minimum FHA Statutory Investment Requirement” only
 - If a Refer decision or loan is manually downgraded, manually underwrite in accordance with FHA guidelines

Temporary Buydown

Permitted for the following

- Fixed-Rate
- Primary residence

Not permitted with the following:

- ARMs

Eligible Buydown Plans

- 2.1: payment will be calculated at 2.00% below the Note rate for payments 1-12 and 1.00% below the Note rate for months 13-24
- 1.5-.5: payment will be calculated at 1.50% below the Note rate for payments 1-12 and 0.500% below the Note rate for months 13-24
- 1-0: payment will be calculated at 1.00% below the Note rate for payment 1-12

Qualifying Rate

- Fixed Rate: Note rate including temporary buydowns
- ARM: Qualify at the initial Note rate

Qualifying Ratios

The qualifying ratios for borrowers with no credit score are calculated using income only from borrowers occupying the subject property. Non-occupant

co-borrower income may not be included.

Decision	Ratios	Acceptable Compensating Factors
AUS Accept	Follow AUS	None
Refer Manual Underwrite	31/43	<ul style="list-style-type: none"> No compensating factors required Energy Efficient Homes that exceed IECC standards may qualify for stretch ratios 33/45
	37/47	One of the following: <ul style="list-style-type: none"> 3 months PITI for 1- 2 units or 6 months PITI for 3-4 units (includes standard reserve requirements) New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 month housing history. Must have housing payment history to use as a comp factor Residual income per VA Table of Residual Incomes by Region
	40/40	The borrower has no discretionary debt based on the following: <ul style="list-style-type: none"> The 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 The borrower can document that these accounts have been paid off in full monthly for at least the past six months
	40/50	Two of the following: <ul style="list-style-type: none"> 3 months PITI for 1-2 units or 6 months PITI for 3-4 units (includes standard reserve requirements) New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 month housing history Significant additional income not considered effective income (must verify and document that the income has been received for at least one year and likely to continue and if included as income, would reduce the qualifying ratios to not more than 37/47) Residual income per VA Table of Residual Incomes by Region

Types of Financing

Purchase mortgage

Subordinate Financing

Permitted

Occupancy

Primary residence

Eligible Property Types

- 1-4 units
- Condos
 - Must be reviewed by PRD
 - Must be unexpired on FHA’s approved list
 - Site condos do not require project approval
- Leasehold estates
- Manufactured housing
- Modular homes
- PUDs
- Section 203(h)
 - 1-unit
 - Condos

Geographic Restrictions

See Geographical Restrictions

Co-Borrower

- Co-borrower
 - Cannot be the seller, builder, real estate agent, etc., unless the co-borrower is a family member
 - Income, assets, and debts from all borrowers are used in qualifying

Non-Occupant Co-Borrower

- Must be either a U.S. citizen or have a primary residence in the U.S.
- Max 75% LTV if
 - Not a family member
 - Parent is seller and non-occupant co-borrower
- If a family member with an LTV greater than 75% the property must be single family

Credit

Nontraditional credit permitted

Housing Payment History

- Inclusive of all liens regardless of position
- Applies to all mortgages on all financed properties
- 203(h): 0x30x12 housing payment history prior to disaster

TOTAL Accept	Refer and Manual Underwrite	
Housing Payment	Housing & Installment Payment	Revolving Payment
Follow AUS Manual downgrade if: <ul style="list-style-type: none"> • Any mortgage trade line on the credit report in the 12 months prior to case number assignment date reflects any of the following: <ul style="list-style-type: none"> ◦ 3x30 or ◦ 1x60 plus 1x30 or ◦ 1x90 ◦ Fewer than three consecutive payments since completion of a forbearance plan • Undisclosed mortgage debt not on credit report and not considered by AUS, if as of case number assignment date reflect any of the following: <ul style="list-style-type: none"> ◦ A current delinquency ◦ 1x30x12 ◦ More than 2x30 in months 13-24 	<ul style="list-style-type: none"> • 0x30x12 • 2x30 in months 13-24 	<ul style="list-style-type: none"> • 2x60x12 or • 0x90x12
Rental payment history is not required	For borrowers living rent-free, the property owner must verify borrower has been living rent free and length of residency	

Seller Contributions

6% of the purchase price

Reserves

Units	TOTAL Accept	Refer and Manual Underwrite
1-2	None	1 month PITI
3-4	3 months PITI	3 months PITI

Number of Financed Properties

Borrower may own no more than one FHA-insured primary residence

Appraisals

A new appraisal completed by an appraiser on the FHA Appraiser Roster

Resources

- HOC National Reference Guide
- FHA Maximum County Limits
- FHA Connection
- HUD Forms, Handbook & Mortgagee Letters

Newrez Wholesale (formerly Caliber) > Government Guidelines > Government Program Summaries & Matrices > FHA Standard Refinance Product Summary (01/13/23)

FHA Standard Refinance Product Summary (01/13/23)

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Eligibility Matrix

FHA ELIGIBILITY MATRIX REFINANCE					
Units	Transaction Type	Credit Score	LTV	CLTV	DTI
TOTAL Accept/Approve					
1-4	Rate & Term Refi	620	97.75% ¹	97.75%	AUS
	Simple Refi	580			AUS2
	Cash-out Refi	620	80%	80%	AUS
		580			AUS 2
Refer and Manual Underwrite					
1-4	Rate & Term Refi Simple Refi	600	97.75% ¹	97.75	50% ³
	Cash-out Refi		80%	80%	

1 Rate & Term Refi

- Max 85% LTV for a borrower who has:
- Occupied the subject property as their primary residence for fewer than 12 months prior to case number assignment date or
- Owned the subject property for fewer than 12 months, but has not occupied as their primary residence for the entire period of ownership

2 DTI > 50% requires at least one of the following compensating factors

- Reserves
 - 1-2 units: 3 months
 - 3-4 units: 6 months
- Residual income in excess of requirements per VA
- Significant income not included in qualifying income

3 DTI > 31/43 requires compensating factors in accordance with FHA guidelines

Loan Terms

- Fixed Rate: 10- to 30-year terms in annual increments
- ARMs: 30-year term

Loan Products

Product Codes	Product Description
FF15	FHA Fixed Rate 11-15 years
FF20	FHA Fixed Rate 16-20 years
FF25	FHA Fixed Rate 21-25-years
FF30	FHA Fixed Rate 26-30 years
FHBF15	FHA Fixed Rate High-Balance 11-15 years
FHBF30	FHA Fixed Rate High-Balance 16-30 years
FT5	FHA ARM 30-year term
FHBT5	FHA ARM High-Balance 30-year term

Eligible Programs

203(b) 1-4 Family Home Mortgage Insurance program

Current First Mortgage Eligibility

Rate & Term Refi	<ul style="list-style-type: none"> • Conventional mortgage • FHA mortgage: Excludes loans closed with Officer Next Door or Teacher Next Door Programs within the last three years • VA mortgage • At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to case number assignment
Simple Refi	<ul style="list-style-type: none"> • FHA mortgage • At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to case number assignment
Cash-out Refi	<ul style="list-style-type: none"> • Conventional mortgage • FHA mortgage: Excludes loans closed with Officer Next Door or Teacher Next Door Programs within the last three years • VA mortgage • At least one borrower must have owned and occupied the property as their primary residence for the 12 months prior to case number assignment • The loan is eligible if <ul style="list-style-type: none"> ◦ The borrower must have made at least six consecutive monthly payments on the existing first mortgage and any junior liens included in the refinance, beginning with the payment made on the first payment due date, and ◦ The first payment due date of the new loan occurs no earlier than 210 days after the first payment due date of the existing loan • For existing mortgages that have been modified, the first payment due date of new mortgage must be on or after the later of: <ul style="list-style-type: none"> ◦ The date that is 210 days after the date on which the first modified monthly payment was due on the mortgage being refinanced, and ◦ The date on which six modified payments have been made on the mortgage being refinanced

ARM Information

Index	One Year Treasury Bill per the Wall Street Journal			
Margin	2.00%			
Life Cap	5%			
Life Floor	The Floor is the Margin			
Interest Rate Caps and Adjustments	Product	First	Subsequent	Lifetime
	5/1	1%	1%	5%
Change Date	5/1	The first Change Date is the 61st payment due date. Subsequent Change Dates are every twelve months thereafter		

Conversion Option	Not available
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Temporary Buydown

Not permitted

HPML

Permitted

QM Rebuttable Presumption

- **≥ 620 Credit Score**
 - AUS Approve/Accept
 - Max 43% DTI or minimum 120% VA Residual Income
- **< 620 Credit Score**
 - AUS Approve/Accept
 - Maximum 43% DTI

Loan Amount

- **Min \$25,000 loan amount**
- Max Base Loan Amount cannot exceed current Statutory Mortgage Limits
- Total Loan Amount with financed UFMIP may exceed the maximum statutory loan amount
- Min loan amount for FHA High-Balance products is based on the Base Loan Amount and not the Total Loan Amount that includes financed UFMIP
- Total Loan Amount must be rounded down to the nearest \$1.00
- Max Base Loan Amount is calculated as the Adjusted Value multiplied by the appropriate LTV factor

Eligible AUS Decision

- Accept/Eligible
- Approve/Eligible

Ineligible AUS Decisions

- Approve/Ineligible
- Refer with Caution
- Caution

Manual Underwrite

- All loans must be submitted to AUS
- If a Refer decision or loan is manually downgraded, manually underwrite in accordance with FHA guidelines

Qualifying Rate

Note rate

Qualifying Ratios

The qualifying ratios for borrowers with no credit score are calculated using income only from borrowers occupying the subject property. Non-occupant co-borrower income may not be included.

Decision	Ratios	Acceptable Compensating Factors
AUS Accept	Follow AUS	None
Refer Manual Underwrite	31/43	<ul style="list-style-type: none"> • No compensating factors required • Energy Efficient Homes that exceed IECC standards may qualify for stretch ratios 33/45
	37/47	One of the following: <ul style="list-style-type: none"> • 3 months PITI for 1-2 units or 6 months PITI for 3-4 units (includes standard reserve requirements) • New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 month housing history (cash-out 0x30x12). Must have housing payment history to use as a comp factor • Residual income in excess VA Table of Residual Income by Region

	40/40	<p>The borrower has no discretionary debt based on the following:</p> <ul style="list-style-type: none"> • The 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 • The borrower can document that these accounts have been paid off in full monthly for at least the past six months
	40/50	<p>Two of the following:</p> <ul style="list-style-type: none"> • 3 months PITI for 1-2 units or 6 months PITI for 3-4 units (includes standard reserve requirements) • New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 housing history (cash-out 0x30x12) • Significant additional income not considered effective income (must verify and document that the income has been received for at least one year and likely to continue and if included as income, would reduce the qualifying ratios to not more than 37/47) • Residual income per VA Table of Residual Incomes by Region

Types of Financing

- Rate & Term Refinance
- Simple Refinance
 - Follow full documentation requirements; however, enter as Streamline Documentation in H20 for UFMIP/Annual MIP rules to fire correctly
- Cash-out Refinance

Subordinate Financing

Permitted

Occupancy

Primary residence

Eligible Property Types

- 1-4 units
- Condos
 - Must be reviewed by PRD
 - Must be unexpired on FHA's approved list
 - Site condos do not require project approval
- Leasehold estates
- Manufactured housing
- Modular homes
- PUDs

Ineligible Property Types

- Condo hotels
- Co-ops
- Non-warrantable condos

Geographical Restrictions

See Geographical Restrictions

Co-Borrower and Non-Occupant Co-Borrowers

	Adding a Co-Borrower	Removing a Co-Borrower
Cash-out Refi	<ul style="list-style-type: none"> • Co-borrower, co-signer or non-occupant co-borrower may be added • Non-occupant co-borrower/co-signer income may not be used to qualify (even if they were on the original note and income used at time of previous transaction) • Must be either a US citizen or have a primary residence in the US 	At least one borrower must have owned and occupied the property as their primary residence for the 12 months prior to case number assignment

Rate & Term Refi Simple Refi	<ul style="list-style-type: none"> • Co-borrower, co-signer or non-occupant co-borrower may be added • Must be either a US citizen or have a primary residence in the US 	At least one borrower on the existing mortgage must hold title to the property being refinanced prior to case number assignment
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Credit

Nontraditional credit permitted

Housing Payment History

- Applies to all mortgages on all financed properties regardless of lien position
- Borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement

Rate & Term Refi and Simple Refi		
TOTAL Accept	Refer and Manual Underwrite	
Housing Payment	Housing & Installment Payment	Revolving Payment
<p>Follow AUS</p> <ul style="list-style-type: none"> • If mortgage on subject property is not reported on borrower's credit report (undisclosed mortgage debt) or is not in borrower's name, provide evidence of the following to maintain AUS Accept <ul style="list-style-type: none"> ◦ 0x30x12 and ◦ 2x30 in months 13-24 • A manual downgrade is required due to any of the following: <ul style="list-style-type: none"> ◦ Any mortgage trade line on the credit report reflects any of the following: <ul style="list-style-type: none"> ▪ 3x30 or ▪ 1x60 plus 1x30 or ▪ 1x90 ▪ Fewer than three consecutive payments since completion of a forbearance plan ◦ Undisclosed mortgage debt during the number of months since case number assignment date reflect any of the following: <ul style="list-style-type: none"> ▪ A current delinquency ▪ 1x30 in months 1-12 ▪ More than 2x30 in months 13-24 	<ul style="list-style-type: none"> • 0x30x12 • 2x30 in months 13-24 	<ul style="list-style-type: none"> • 2x60x12 or • 0x90x12
<p>Forbearance</p> <ul style="list-style-type: none"> • A borrower granted forbearance and continued to make all mortgage payments will be considered on time provided the borrower exits forbearance prior to closing • For a borrower who was granted a forbearance plan, the borrower must have <ul style="list-style-type: none"> ◦ Exited the forbearance plan on the subject property, and ◦ Made at least three consecutive mortgage payments within the month due since exiting forbearance • For a modified mortgage, the payment history since modification must be used in determining payment history. The borrower must have made at least six payments under the modification agreement 		
<p>Cash-out Refi</p> <ul style="list-style-type: none"> • Subject property must have been owned and occupied as primary residence for 12 months prior to the date of case number assignment. • 0x30x12 prior to case number assignment date for any mortgage trade line on the credit report • Properties with mortgages must have a minimum of six months of mortgage payments • The borrower must have made at least six consecutive payments on the existing mortgage(s) included in the refinance • If the mortgage on subject property is not reported on the borrower's credit report or is not in borrower's name, verification of mortgage (VOM, cancelled checks, bank statements, etc.) is required to evidence all payments made in last 12 months have been made by borrower • A manual downgrade is required due to undisclosed mortgage debt during the number of months since case number assignment date reflects 1x30x12 or more than 2x30 in months 13-24 • Refer and Manual Underwrite <ul style="list-style-type: none"> ◦ Housing and Installment Payment History <ul style="list-style-type: none"> ▪ 0x30x12 ▪ 2x30 in months 13-24 		

- Revolving
 - 2x60x12 or 0x90x12

Forbearance

- A borrower granted forbearance and continued to make all mortgage payments will be considered on time provided the borrower exits forbearance prior to closing
- For a borrower who was granted a forbearance plan, the borrower must have
 - Exited the forbearance plan on the subject property, and
 - Made at least 12 consecutive mortgage payments within the month due since exiting forbearance
- For a modified mortgage, the payment history since modification must be used in determining payment history. The borrower must have made at least six payments under the modification agreement

Seller Contributions

NA

Reserves

Units	TOTAL Approve/ Accept	Refer and Manual Underwrite
1-2	None	1 month PITI
3-4	3 months PITI	3 months PITI

Number of Financed Properties

Borrower may own no more than one FHA-insured primary residence

Appraisals

A new appraisal completed by an appraiser on the FHA Appraiser Roster

Resources

Access Mortgagee Letters, National HOC Reference Guide, HOC Letters, Handbooks

- HOC National Reference Guide
- FHA Maximum County Limits
- FHA Connection
- HUD Forms, Handbook & Mortgagee Letters

Newrez Wholesale (formerly Caliber) > Government Guidelines > Government Program Summaries & Matrices > FHA Streamline Refinance Product Summary (12/07/22)

FHA Streamline Refinance Product Summary (12/07/22)

Overlays are identified with yellow highlighting

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Eligibility Matrix

FHA STREAMLINE REFINANCE ELIGIBILITY MATRIX					
Units	Transaction Type	Credit Score	LTV	CLTV	DTI
Portfolio					
1-4	Non-Credit Qualify ¹	NA	105%	105%	NA
	Credit Qualify	580			50% ²
Non-Portfolio					
1-4	Non-Credit Qualify ¹	580	105%	125%	NA
	Credit Qualify	620			50% ²
Principal balance may not exceed original loan amount of loan being refinanced					
1 West Virginia: All loans must be credit qualified					
2 DTI >31/43 requires compensating factors in accordance with FHA guidelines					

Loan Terms

- The new mortgage may not have a term of more than 12 years in excess of the unexpired term of the existing mortgage
- Fixed Rate: 10- to 30-year terms in annual increments
- ARMs: 30-year term
 - Non-owner occupied not permitted

Loan Products

Product Codes	Product Description
FF15	FHA Fixed Rate 11-15 years
FF20	FHA Fixed Rate 16-20 years
FF25	FHA Fixed Rate 21-25-years
FF30	FHA Fixed Rate 26-30 years
FHBF15	FHA Fixed Rate High-Balance 11-15 years
FHBF30	FHA Fixed Rate High-Balance 16-30 years
FT5	FHA ARM 30-year term
FHBT5	FHA ARM High-Balance 30-year term

Eligible Programs

203(b) 1-4 Family Home Mortgage Insurance program

Current First Mortgage Eligibility

- Existing endorsed FHA mortgage
- As of the new FHA case number assignment date
 - At least 210 days must have passed since the closing funding date of the existing mortgage
 - The borrower must have made at least six consecutive monthly payments on the existing mortgage, beginning with the payment made on the first payment due date and
 - At least six full months have passed since the first payment due date on the mortgage being refinance
 - Deferred or skipped mortgage payments due to forbearance are not counted toward seasoning and minimum number of payments requirements
- The first payment due date of the new mortgage occurs no earlier than 210 days after the first payment due date of the existing mortgage
- For existing mortgages that have been modified, the first payment due date of new mortgage must be on or after the later of
 - The date that us 210 days after the date on which the first modifies monthly payment was due on the mortgage being refinanced and
 - The date on which six modified payments have been made on the mortgage being refinanced

ARM Information

Index	One Year Treasury Bill per the Wall Street Journal
Margin	2.00%
Life Cap	5%
Life Floor	The Floor is the Margin

Interest Rate Caps and Adjustments	Product	First	Subsequent	Lifetime
	5/1	1%	1%	5%
Change Date	5/1	The first Change Date is the 61st payment due date. Subsequent Change Dates are every twelve months thereafter		
Conversion Option	Not available			

HPML

Permitted

QM Rebuttable Presumption

- **≥ 620 Credit Score**
 - AUS Approve/Accept
 - Max 43% DTI or minimum 120% VA Residual Income
- **< 620 Credit Score**
 - AUS Approve/Accept
 - Maximum 43% DTI

Statutory Limits

- **Min \$25,000 loan amount**
- Max Base Mortgage may exceed the current Statutory Loan Limits
- Max Base Mortgage may not exceed the Total Loan Amount on the existing mortgage, including UFMIP
- Min loan amounts for the FHA High Balance product will be based on the Base Loan Amount and not the Total Loan Amount that includes financed UFMIP
- Total Loan Amount must be rounded down to the nearest \$1.00

Loan Amount

- Use original loan amount on FHA Connection Refinance Authorization Screen, even if loan has been modified
- Owner-occupied Property
 - Max base mortgage amount is the lesser of original principal amount of existing mortgage or UPB plus max of two months of interest and pro rate annual MIP, late charges, escrow shortages, minus any unearned UFMIP
- Non-owner-occupied Property
 - Max base mortgage amount is the lesser of original principal amount of existing mortgage or UPB
- Max mortgage amount calculation to be documented using FHA Maximum Refinance Calculation Worksheet or similar summary of component costs and credits to calculate final mortgage amount
- FHA to FHA refinance: Refinance Authorization information must be obtained at Case Number Assignment
- Incidental cash back up to \$500
- Premium pricing permitted

Eligible AUS Decision

- Accept/Eligible
- Approve/Eligible

Ineligible AUS Decisions

- Approve/Ineligible
- Refer with Caution
- Caution

Manual Underwrite

All Streamline refinances must be manually underwritten and meet FHA and Company underwriting requirements

Qualifying Rate

- Credit Qualifying Refi–Note rate
- Non-Credit Qualifying Refi–NA

Qualifying Ratios

Qualifying ratios for Credit Qualified loans

Decision	Ratios	Acceptable Compensating Factors
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Refer Manual Underwrite	31/43	<ul style="list-style-type: none"> No compensating factors required Energy Efficient Homes that exceed IECC standards may qualify for stretch ratios 33/45
	37/47	<p>One of the following:</p> <ul style="list-style-type: none"> 3 months PITI for 1- 2-units or 6 months PITI for 3-4 units (includes standard reserve requirements) New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 month housing history. Must have housing payment history to use a comp factor Residual income per VA Table of Residual Income by Region
	40/40	<p>The borrower has no discretionary debt based on the following:</p> <ul style="list-style-type: none"> 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
	40/50	<p>Two of the following:</p> <ul style="list-style-type: none"> 3 months PITI for 1-2-units or 6 months PITI for 3-4 units (includes standard reserve requirements) New total mortgage payment not more than \$100 or 5% higher than previous total housing payment, whichever is less, and 1x30x12 housing history Significant additional income not considered effective income (must verify and document that the income has been received for at least one year and likely to continue and if included as income, would reduce the qualifying ratios to not more than 37/47) Residual income per VA Table of Residual Incomes by Region

Types of Financing

- Credit Qualifying Streamline Refinance
- Non-Credit Qualifying Streamline Refinance

Subordinate Financing

Existing subordinate financing

Ineligible Subordinate Financing

New subordinate financing

Occupancy

- Primary residence
- Non-owner occupied
 - Second home (1-unit)
 - Investment property
- Provide evidence that the borrower currently occupies the property as their primary residence as of case number assignment date with one of the following
 - Employment documentation
 - Current utility bill
 - Direct electronic verification by a third-party verification vendor verifying the borrower's address is the same as the subject property
 - Loan must be processed as non-owner-occupied property if evidence cannot be obtained

Eligible Property Types

- 1-4 units
- Condos
 - Must be reviewed by PRD
 - Must be unexpired on FHA's approved list
 - Site condos do not require project approval
- Leasehold estates
- Manufactured housing
- Modular homes

- PUDs

Ineligible Property Types

- Condo hotels
- Co-ops
- Non-warrantable condos

Geographic Restrictions

See Geographical Restrictions

Eligible Borrowers

- Provide copy of Social Security Card or processed Authorization to Release Social Security Number Form SSA-89
- Verification of citizenship and immigration status not required for Non-Credit Qualifying Streamline Refinance

Adding a Co-Borrower

- Occupant co-borrower may be added
- An individual may be added to title
- Non-occupant co-borrower or co-signer may not be added

Removing a Co-Borrower

Credit Qualifying Refi	Non-Credit Qualifying Refi
<ul style="list-style-type: none"> • Borrowers may be removed provided the remaining borrower qualifies for the new mortgage • At least one borrower from the existing mortgage must remain as a borrower on the new mortgage 	<ul style="list-style-type: none"> • All borrowers on the existing mortgage must remain as borrowers on the new mortgage • Provide one of the following to confirm that the borrowers will remain the same <ul style="list-style-type: none"> ◦ Copy of the note ◦ Verification of mortgage • Exception permitted in cases of divorce, separation, or death <ul style="list-style-type: none"> ◦ Divorce decree or legal separation agreement awarded the property and responsibility for payment to the remaining borrower, if applicable, and ◦ Remaining borrower has made minimum six months mortgage payment prior to the case number assignment

Credit

Credit Qualifying Refi	Non-Credit Qualifying
<ul style="list-style-type: none"> • Credit report required • Credit report required if non purchasing spouse resides in a community property State or if subject property is in a community property state • Nontraditional credit not permitted • CAIVRS not required 	<ul style="list-style-type: none"> • Credit report is not required for Portfolio loans • A traditional credit report or alternative report such as the mortgage only report, that provides credit scores, and mortgage payment history is acceptable (Non-Portfolio) • Fraud messages identified must be addressed • The waiting period and re-establishment of credit requirements for significant derogatory credit is not required • Judgements on the credit report do not need to be paid unless effects title • Non borrowing spouse credit report not required • Nontraditional credit not permitted • CAIVRS not required

Housing Payment History

- Inclusive of all liens regardless of position
- Borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement

	Credit Qualifying Refi	Non-Credit Qualifying Refi
Housing Payment	<ul style="list-style-type: none"> • Applies to all mortgages on all financed properties • Prior to case number assignment date <ul style="list-style-type: none"> ◦ 0x30 in past 6 months ◦ 1x30 in months 7–12 ◦ 0x30 if fewer than 12 months payments have 	<ul style="list-style-type: none"> • Applies to all mortgages on subject property • Prior to case number assignment date: <ul style="list-style-type: none"> ◦ 0x30 in past 6 months ◦ 1x30 in months 7–12 ◦ 0x30 if fewer than 12 months payments have

	been made	been made
Installment Payment	<ul style="list-style-type: none"> • 0x30x12 • 2x30 in months 13-24 	Not applicable
Revolving Payment	<p>If the housing and installment payment history above is acceptable, the borrower's credit must not include any revolving accounts:</p> <ul style="list-style-type: none"> • 90+ days late in most recent 12 months, or • 2x60 in most recent 12 months 	Not applicable
Forbearance	<ul style="list-style-type: none"> • A borrower granted forbearance and continued to make all mortgage payments will be considered on time provided the borrower exits forbearance prior to closing • Payments not made during a forbearance granted by a servicer that do not require payments to be made during the forbearance period, are not considered delinquent. Forbearance plans that require partial payments are not considered delinquent if payments are made in accordance with the terms of the forbearance plan 	
	<ul style="list-style-type: none"> • A borrower who is still in forbearance at the time of case number assignment or has made less than three consecutive monthly mortgage payments within the month due since exiting forbearance must: <ul style="list-style-type: none"> ◦ Have made all mortgage payments within the month due for the six months prior to forbearance; and ◦ Have had no more than 1x30 in the 7-12 months prior to forbearance • Seasoning requirements apply <p>The following may be included in the loan amount:</p> <ul style="list-style-type: none"> • Owner occupied properties: deferred mortgage payments (P&I, escrow shortages, late charges) on the payoff statement, provided that the maximum base loan amount does not exceed the original principal balance (including financed UFMIP) of the existing mortgage • Non-owner-occupied properties: the maximum base loan amount is the lesser of outstanding principal balance only or original principal balance minus any refund of UFMIP 	<ul style="list-style-type: none"> • A borrower who was granted a forbearance and missed payments or paid outside month due while in forbearance, prior to case number assignment must have <ul style="list-style-type: none"> ◦ Exited the forbearance plan; and ◦ Portfolio: made at least three consecutive mortgage payments within the month due since exiting the forbearance plan ◦ Non-Portfolio: made at least six consecutive mortgage payments within the month due since exiting the forbearance plan • Seasoning requirements apply <p>The following may be included in the loan amount</p> <ul style="list-style-type: none"> • Owner occupied properties: deferred mortgage payments (P&I, escrow shortages, late charges) on the payoff statement, provided that the maximum base loan amount does not exceed the original principal balance (including financed UFMIP) of the existing mortgage • Non-owner-occupied properties: the maximum base loan amount is the lesser of outstanding principal balance only or original principal balance minus any refund of UFMIP
Modified Mortgage	<p>The borrower must have made</p> <ul style="list-style-type: none"> • At least six payments under the modification agreement • At least six full months must have passed since the first payment due date of the mortgage that is being refinanced • Seasoning requirements apply 	

Seller Contributions

NA

Funds to Close

- Must verify borrower's funds to close, in excess of the total mortgage payment on the new mortgage
- Source of large deposits required for Credit Qualifying Refinance

Reserves

Credit Qualifying Refi	Non-Credit Qualifying Refi
<ul style="list-style-type: none"> • 1-2 units: One month PITI • 3-4 units: Three months PITI • Gifts: not permitted 	<ul style="list-style-type: none"> • Not required

Employment and Income

Credit Qualifying Refi	Non-Credit Qualifying Refi
Standard income documentation required	Employment and income do not need to be disclosed

Number of Financed Properties

Borrower may own no more than one FHA-insured primary residence

Appraisals

- No appraisal required
- Properties located in a Presidentially Declared Major Disaster Area do not require a damage inspection report

Resources

Access Mortgagee Letters, National HOC Reference Guide, HOC Letters, Handbooks

- HOC National Reference Guide
- FHA Maximum County Limits
- FHA Connection
- HUD Forms, Handbook & Mortgagee Letters

Newrez Wholesale (formerly Caliber) > Government Guidelines > Government Underwriting Guidelines > FHA Underwriting Guidelines > Underwriting Guidelines
Printable Version (1/9/2023)

Underwriting Guidelines Printable Version (1/9/2023)

Newrez Wholesale (formerly Caliber) > Government Guidelines > Government Underwriting Guidelines > FHA Underwriting Guidelines > FHA Eligibility

FHA Eligibility

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Overview

This Underwriting chapter sets out underwriting standards that apply to all FHA Loan Programs. Generally, underwriting standards that vary from one (1) Loan Program to another are described in our Product Profiles. In most cases, differences will not be referenced in this chapter. In addition, guidelines contained in this chapter are applicable to loans underwritten by TOTAL Mortgage Scorecard and for manually underwritten loans.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

All Company overlays will be highlighted in yellow.

Net Tangible Benefit

A Net Tangible Benefit required for most loan transactions. Refer to Refinances: Net Tangible Benefit Policy & Procedure.

The borrower must receive a Net Tangible Benefit (NTB) resulting from the Streamline Refinance transaction.

A Net Tangible benefits is

- A reduced combined rate;
- A change from an ARM to a Fixed Rate; and/or
- A reduced in term refers to the reduction of the remaining amortization period of the existing mortgage by three (3) years or more

Combined Rate Reduction refers to the interest rate on the mortgage plus the MIP rate.

Reduction in Term refers to the reduction of the remaining amortization period of the existing mortgage by three (3) years or more.

Combined Rate Benefit Test (with no term reduction or term reduction of less than three years.					
The following defines the permissible minimum thresholds to define net tangible benefit.					
From:					
To:	Fixed Rate			ARM	
Fixed Rate	New Combined Rate and least 0.5% below prior Combined Rate			New Combined Rate at least 2% below prior Combined rate	
ARM	New Combined Rate no more than 2% above prior Combined Rate			New Combined Rate at least 1% below prior Combined Rate	
Reduction in Term of Three Years or More Benefit Test					
<ul style="list-style-type: none"> • Must meet the permissible minimum thresholds stated below • Combined principal, interest and annual MIP payment of the new mortgage does not exceed the combined principal, interest, and annual MIP of the existing mortgage by more than \$50 					
From:					
To:	Fixed Rate			ARM	
Fixed Rate	New Combined Rate below prior Combined Rate			Not eligible	
ARM	New Combined Rate no more than 2% above prior Combined Rate			Not eligible	
Examples	New Combined Rate		Prior Combined Rate		Loan Eligibility
Fixed Rate	Interest Rate	3.00%	Interest Rate	4.50%	Loan is eligible; New Combined Rate is more than .5% below prior Combined Rate
	MIP	0.85%	MIP	1.35%	
	Total	3.85%	Total	5.85%	
ARM	Interest Rate	4.00%	Interest Rate	2.00%	Loan is ineligible; New Combined Rate is more than 2% above prior Combined Rate
	MIP	0.55%	MIP	0.50%	
	Total	4.55%	Total	2.50%	

Home Ownership Centers

FHA maintains four (4) main processing and underwriting centers nationwide, called Home Ownership Centers (HOC). Each HOC has jurisdiction over several states and has standardized policies and procedures for all states in their jurisdiction. See the FHA Connection (FHAC) for the local HOC serving your state.

HOCs may be contacted through the FHA Resource Center: 1-800-CALLFHA (800-225-5342).

FHA Connection

The FHAC is HUD's interactive internet system providing FHA-approved lenders with real-time access to Single Family Origination functions. All processes relating to the origination and insurance of FHA mortgages must be completed in the FHAC.

The FHAC must be used to order case numbers. A case number can be obtained only when the Company has an active loan application for the subject borrower and property.

FHA case numbers are assigned to properties, not to borrowers. Appraiser information must not be entered when the case number is ordered.

Credit Alert Interactive Voice Response System

All borrowers must be screened using HUD's Credit Alert Interactive Voice Response System (CAIVRS) except those borrowers involved in a Streamline refinance.

The borrower is not eligible for an FHA-insured mortgage if CAIVRS indicates that they are presently delinquent on a federal debt or has had a claim paid within the previous three (3) years on a loan made and insured by FHA.

A loan may not be denied solely on the basis of CAIVRS information that has not been verified by the by the Company. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the application process may continue.

FHA will delete erroneous information regarding a borrower falsely indicated as having defaulted on an FHA mortgage, such as incorrect Social Security Number reporting.

A clear CAIVRS approval may not be relied upon when in possession of independent evidence of delinquent federal obligations and must document the resolution of any conflicting information.

If there is reason to believe the CAIVRS message is erroneous or needs to establish the date of claim payment, contact the appropriate FHA Homeownership Center (HOC) for instructions or documentation to support the borrower's eligibility.

FHA cannot alter or delete CAIVRS information reported from other Federal agencies, such as the Department of Education, Veterans Affairs, etc. The borrower and/or the Company must contact those agencies to correct or remove erroneous or outdated information.

Delinquent Federal Debt

(a) Delinquent Federal Non-Tax Debt

Verification	Borrowers with delinquent federal non-tax debt, including deficiency judgments, and other debt associated with past FHA-insured mortgages are ineligible. Information on delinquent federal non-tax debt may be obtained from public records, credit reports or equivalent. In addition, all borrowers must be checked against the Credit Alert Interactive Voice Response System (CAIVRS), that indicates whether or not the borrower is presently delinquent or has had a default claim paid in the last three (3) years through any government loan program. Non-borrowing spouse does not need to be checked against CAIVRS.
Resolution	For a borrower with a verified delinquent federal debt to become eligible, the borrower must resolve their federal non-tax debt. The creditor that is owed the debt can verify that the debt has been resolved. Resolution involves either: <ul style="list-style-type: none"> • Payment in full; or • A valid repayment agreement with the lien holder to make regular payments on the debt. The borrower must have made at least three (3) months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three (3) months payments. The monthly payment must be included in the DTI ratio.
Documentation	Documentation must be included from the creditor agency to support the verification and resolution of the debt. For a debt reported through CAIVRS, evidence of resolution may be obtained with a clear CAIVRS report or with documentation from the creditor agency. Except for federal tax liens, an open tax lien must be subordinate to the Newrez first mortgage. Verification of sufficient funds to satisfy these obligations must be documented, if applicable. A letter of explanation is required for all federal tax debt.

(b) Delinquent Federal Tax Debt Public records and credit information must be checked to verify that the borrower is not delinquent on any federal debt and does not have a tax lien placed against their property for a debt owed to the federal government. Borrowers with delinquent federal tax debt are ineligible. All delinquent federal tax debt must be satisfied prior to or at closing unless the debt has been resolved in one (1) of the following ways:

Tax Debt with Lien	<ul style="list-style-type: none"> • Payment in full; or • A valid repayment agreement with the lien holder to make regular payments on the debt. The monthly payment must be included in the DTI ratio. The borrower must have made at least three (3) months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three (3) months payments. <p>An open tax lien must be subordinate to the Newrez first mortgage. A letter of explanation is required for all federal or state tax liens.</p>
Tax Debt without Lien	<ul style="list-style-type: none"> • Payment in full; or • A valid repayment agreement with the lien holder to make regular payments on the debt. The monthly payment must be included in the DTI ratio. <p>Verification of sufficient funds to satisfy these obligations must be documented, if applicable.</p>

Loan Application

The initial Uniform Residential Loan Application (URLA) and page two (2) of form HUD-92900-A must be complete and signed before underwriting the loan application.

The loan originator identified on the URLA must be the actual licensed loan originator regardless of whether the interviewer is employed by a sponsored Third-Party Originator (TPO) or Newrez. The URLA must contain the loan originator's name, Nationwide Mortgage licensing System and Registry (NMLS) identification number, telephone number and signature.

All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail. The loan originator's name and employer must be completed, and all applications must be signed and dated by the borrower(s).

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers. All debt incurred during the application process and through loan closing of the mortgage must be disclosed on the final application. See Chapter Credit, 2F.5 Undisclosed Liabilities.

All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the loan file.

A loan application may not be retaken for a borrower where misrepresentations are identified, such as under reported income to the IRS, fraudulent W-2s

or paystubs. Due diligence must be exercised when determining whether to allow an application to proceed due to a change of borrower and occupancy representation.

Social Security Number Validation

Evidence of a valid social security number is required for all borrowers. In addition, each borrower must sign Part IV of form HUD-92900-A to verify the borrower's Social Security Number (SSN) with the Social Security Administration (SSA).

Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved non-profit organizations are not required to provide a social security number.

Comply with the following:

- Validate and document a social security number for each borrower on the transaction by:
 - Entering the borrower's name, date of birth, and SSN in the borrower/address validation screen through FHAC.
 - Examining the borrower's original paystubs, W-2s, tax returns obtained directly from the IRS, social security card, or by processing Form SSA-89 Authorization for the SSA to Release Social Security Number Verification, or other documents in the loan file
- Resolve any inconsistencies or multiple social security numbers for individual borrowers that are revealed during the mortgage process using a service provider to verify the social security number with the SSA.

The credit report must indicate the non-borrowing spouse's SSN (where an SSN exists) was matched with the SSA, or provide one (1) of the following:

- Separate documentation indicating that the SSN was matched with the SSA; or
- A statement that the non-borrowing spouse does not have an SSN. 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 (2) years.

Documentation Age

Age of Credit Documents	All documents must not be more than 120 days old on the disbursement date. Documents whose validity for underwriting purposes is not affected by time, such as divorce decrees, is not subject to a document expiration date.
Appraisal Validity	<ul style="list-style-type: none"> • Case Numbers Assigned on or After June 1, 2022: <ul style="list-style-type: none"> ◦ The initial appraisal validity period is 180 days from the effective date of the appraisal report. • Case Numbers Assigned Prior to June 1, 2022: <ul style="list-style-type: none"> ◦ The initial appraisal validity period is 120 days from the effective date of the appraisal report. • The reuse of an appraisal for a subsequent transaction is not permitted.
Appraisal Update	<p>The original appraisal may be updated if the initial appraisal has not yet expired and is valid for one (1) year after the effective date of the initial appraisal report being updated. Use the Appraisal Update and/or Completion Report (Form 1004D/70) to update the initial appraisal.</p> <p>A new appraisal is required when one (1) of the following exists:</p> <ul style="list-style-type: none"> • The appraisal date is more than one (1) year from the effective date of the original date of the appraisal; • The appraiser indicates in the appraisal update that there has been a market change since the original appraisal report was issued; or • The update indicates material defects. <p>When the appraisal expires, a new appraisal will have to be ordered and a new FHA case number will have to be issued.</p>
Effective Date of Title Policy	The effective date of the title insurance policy must be no earlier than the date on which the security instrument was recorded, and final title insurance policy must be dated within 45 days of loan closing.

(a) Handling of Documents Documents, including third party verifications, relating to the employment, income, assets, or credit are not acceptable if they have been handled by or transmitted from or through unknown parties, interested parties, or the borrower.

Information Sent Electronically	All documents received electronically must be validated by examining the source identifiers (fax banner header or sender's e-mail address) or contacting the source of the document by telephone. The name and telephone number of the individual contacted and verifying the documents must be indicated.
Information Obtained via the Internet	<ul style="list-style-type: none"> • Documents obtained from an internet website must be authenticated and printouts downloaded from the internet must be examined. • Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document.

(b) Documents and Disclosures

Sales Contract	<p>Provisions of the sales contract must not violate FHA requirements. In addition:</p> <ul style="list-style-type: none"> • All purchasers listed on the sales contract are borrowers; and • Only borrowers sign the sales contract. <p>An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.</p>
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	The family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.
Amendatory Clause	If the borrower does not receive form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause.
Real Estate Certification	<p>The borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that:</p> <ul style="list-style-type: none"> • The terms and conditions of the sales contract are true; and • Any other agreement entered into by any parties in connection with the real estate transactions is part of, or attached to, the sales agreement. <p>A separate certification is not needed if the sales contract contains a statement that:</p> <ul style="list-style-type: none"> • There are no other agreements between parties and the terms constitute the entire agreement between the parties; and • All parties are signatories to the sale contract submitted at the time of underwriting. <p>All copies of the sales contract(s), including a complete copy of the final sales contract with any modifications or revisions must be obtained.</p> <p>An amendatory clause is not required for HUD REO transactions.</p>
Property Assessed Clean Energy	When the subject property is encumbered with a PACE obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing.
Informed Consumer Choice Disclosure	The borrower must be provided with an Informed Consumer Choice Disclosure if the borrower may qualify for a similar non-FHA insured mortgage product offered by the Company.
Form HUD-92900-B, Important Notice to Homebuyers	The borrower must be provided with and sign a copy of form HUD-92900-B, Important Notice to Homebuyers, for use when applying for a mortgage. The original form signed by the borrower must be retained in the loan file.
Lead-Based Paint	<p>If the property was built before 1978, the property seller must disclose any information known about lead-based paint and lead-based paint hazards, in accordance with HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CCFR 745, subpart F).</p> <p>All of the following must be met:</p> <ul style="list-style-type: none"> • The borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards ("Protect Your Family From Lead In Your Home"); • The borrower was given a ten-day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards or waived the opportunity. The sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser: <ul style="list-style-type: none"> ◦ Containing a lead warning statement set forth in 24 CFR §35.92(a)(1); ◦ Providing the seller's disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence; ◦ Listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and ◦ Affirming that the borrower received the pamphlet, disclosure, and records or reports, above. • When any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller's Lead Disclosure Rule obligations, the agent is aware of his or her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(i) Form HUD-92564-CN, For Your Protection: Get a Home Inspection Form HUD-92564-CN, For your Protection: Get a Home Inspection, must be provided to prospective home buyers at first contact, whether for re-qualification, pre-approval, or initial application, as indicated in the below table.

Property Type	Form Required
Proposed/Under Construction	No
Existing Construction Less than One Year Old	Yes, if previously occupied
Existing Property	Yes
No Cash-out Refinance	No
Cash-out Refinance	No
Streamline Refinance without an Appraisal	No

(c) Signature Requirements for All Application Forms All borrowers must sign and date:

- The initial and final Uniform Residential Loan Application (URLA);
- Page two (2) of the initial form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application; and

- The completed final form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application.

The application may not be signed by any party who will not be on the Note.

(d) Use of Electronic Signatures An electronic signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. An electronic signature that is solely voice or audio is not permitted.

Third-Party Documents	Third party documents are those documents that are originated and signed outside of the control of the lender, such as the sales contract. Electronic signatures on third party documents included in the case binder are acceptable in accordance with the E-Sign Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically or in a paper copy of the electronically signed document.
Eligible Documents	Electronic signatures are acceptable on the following types of documents: <ul style="list-style-type: none"> • Mortgage Insurance Endorsement Documents - Electronic signatures will be accepted on all documents requiring signatures included in the case binder for mortgage insurance, with the exception of the Note and the Security Instrument; or • HUD Real Estate Owned Documents - Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda.
Associating an Electronic Signature with the Authorized Document	The process for electronically signing authorized documents must provide for the document to be presented to the signatory before an electronic signature is obtained. The electronic signature must be attached to, or logically associated with, the document that has been electronically signed.
Intent to Sign	The Company must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the E-Sign Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes: <ul style="list-style-type: none"> • Identifying the purpose for the borrower signing the electronic record; • Being reasonably certain that the borrower knows which electronic record is being signed; and • Providing notice to the borrower that their electronic signature is about to be applied to, or associated with, the electronic record. <p>Intent to use an electronic signature may be established by, but is not limited to:</p> <ul style="list-style-type: none"> • An online dialog box or alert advising the borrower that continuing the process will result in an electronic signature; • An online dialog box or alert indicating that an electronic signature has just been created and giving the borrower an opportunity to confirm or cancel the signature; and • A click-through agreement advising the borrower that continuing the process will result in an electronic signature.
Single-Use of a Signature	A separate action by the signer is required, evidencing intent to sign, in each location where a signature or initials are to be applied. <p>This provision does not apply to documents signed by Company employees or contractors provided consent of the individual is obtained for the use of their electronic signature. The borrower's consent must be documented.</p>

Occupancy Types

(a) Primary Residence

- A primary residence is a property that at least one (1) borrower occupies as their primary residence for the majority of the year.
- A borrower may have only one (1) primary residence at any time and may only have one (1) FHA loan.
- At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property for at least one (1) year.

(i) Exceptions to Borrower Having More than One Primary Residence FHA-Insured Mortgage

Relocation	Satisfactory evidence must be provided that the borrower: <ul style="list-style-type: none"> • Is relocating or has relocated for an employment-related reason; and • Is establishing or has established a new primary residence in an area that is more than 100 miles from their current primary residence. <p>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 primary residence, provided the relocation meets the two (2) requirements above.</p>
Increase in Family Size	Satisfactory evidence must be provided to evidence that: <ul style="list-style-type: none"> • The borrower has had an increase in legal dependents and the property now fails to meet family needs; and • The LTV on the current primary residence is \leq 75% or is paid down to that amount, based on the outstanding mortgage balance and a current appraisal.

Vacating a Jointly Owned Property	<ul style="list-style-type: none"> • The borrower is vacating a residence that will remain occupied by a co-borrower (with no intent to return). • Examples would include a borrower who is divorced, after which the vacating ex-spouse will purchase a new home, or one (1) of the co-borrowers will be vacating the existing property.
Non-Occupying Co-Borrower	<ul style="list-style-type: none"> • A non-occupying co-borrower on an existing FHA-insured mortgage may qualify for another FHA-insured mortgage on a new property to be their own primary residence. • A borrower with an existing FHA-insured mortgage on their own primary residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages.

(ii) **Military Personnel** Military personnel, who cannot physically reside in a property because they are on active duty, are considered owner occupants and are eligible for maximum financing if a family member of the borrower will occupy the subject property as their primary residence, or the borrower intends to occupy the subject property upon discharge from military service. A copy of the borrower's military orders evidencing active duty status and that the duty station is more than 100 miles from the subject property must be provided. The borrower must indicate his or her intent to occupy the subject property upon discharge from military service if a family member will not occupy the property as their primary residence.

(b) **Secondary Primary Residence** A secondary residence refers to a dwelling that a borrower occupies, in addition to their primary residence, but less than a majority of the calendar year. A secondary residence does not refer to a vacation home. **Secondary residences are only permitted on a Streamline Refinance** with written approval from the jurisdictional HOC after determination that:

- The borrower has no other secondary residence;
- The secondary residence will not be a vacation home or be otherwise used primarily for recreational purposes;
- The commuting distance to the borrower's workplace creates an undue hardship on the borrower(s) and there is no affordable rental housing meeting the borrower's needs within 100 miles from the borrower's workplace; and
- The maximum mortgage amount is 85% of the lesser of the appraised value.

A lack of affordable rental housing must be documented with all of the following:

- A satisfactory explanation of the need for a secondary residence and the lack of available rental housing; and
- Written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

(c) **Investment Property** An investment property refers to a property that is not occupied by the borrower as a primary or secondary residence. Refer to our Product Summaries for eligibility.

Borrower Eligibility

Any person signing an application for a loan is a borrower. All borrowers must sign the Note. All borrowers must have a social security number. An Individual Tax Identification Number (ITIN) is not permitted.

Each borrower must be an individual. Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible. See the Loans to Trusts section in this chapter. In addition, title held in the name of a limited liability company (LLC), or land trust may be eligible provided the borrower is a member of the LLC or land trust and title is transferred to the borrower's name at closing.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

(a) **U.S. Citizen** A citizen of the United States or of a United States Possession or Territory are eligible borrowers.

(b) **Non-U.S. Citizen**

(i) **Permanent Resident** A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. Document legal residency with one (1) of the following:

- A copy of a valid and current Permanent Resident card (Green Card-Form I-551) front and back; or
- A passport stamped "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until _____. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card.

See United States Citizenship and Immigration Services (USCIS) for more information.

(ii) **Non-Permanent Resident** A non-permanent resident alien is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. A non-permanent resident may be eligible provided:

- The subject property is owner occupied;
- The borrower has a valid social security number;
- The borrower is eligible to work in the U.S. evidenced by an Employment Authorization Document (EAD) or one (1) of the following alternatives to documenting work authorization status:
 - Citizens of the Freely Associated States (FAS) of Micronesia, Marshall Islands, and Palau, must provide either:
 - Current Employment Authorization Document (USCIS Form I-766), or
 - An FAS passport evidencing citizenship.
 - Borrowers who are admitted under a H-1B visa must provide:
 - Current Employment Authorization Document (USCIS Form I-766), or
 - A USCIS Form I-94 evidencing H-1B status, and evidence of employment by the authorized H-1B employer for a minimum of one (1) year.
 - Borrowers residing in the United States by virtue of refugee or asylee status must provide:

- Employment Authorization Document (USCIS Form I-766);
- USCIS Form I-94 indicating refugee or asylum status; or
- USCIS Form I-797 notice indicating approval of a USCIS Form I-589, Application for Asylum or Removal substantiating the refugee or asylee status.

If the authorization for temporary residency status will expire within one (1) year prior to the Note date and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.

Eligible Visa Types		
Visa Type	Visa Description	EAD (I-766) Required?
E-1	Treaty trader - employee, spouse, and/or child	Yes, for spouse
E-2	Treaty investor - employee, spouse, and/or child	Yes, for spouse
E-3	"Specialty occupation" - Australia	Yes, for spouse
E-3D	Spouse or child of E-3	Yes
G-1	Mission member - designated international organization	Yes, for spouse
G-2	Representative of a recognized or member foreign government	No
G-3	Representative of non-recognized or non-member government	Yes, for spouse
G-4	Appointment - designated international organization	Yes, for spouse
G-5	Employee of G-1, G-2, G-3, or G-4	Yes, for spouse
H-1B	Specialty Occupation	No
H-1B1	Specialty Occupation - Chile or Singapore	No
H-1B2	Specialty Occupation - U.S. Department of Defense	No
H-1B3	Fashion model of distinguished merit and ability	No
H-1C	Registered nurse - U.S. Department of Labor	No
H-4	Spouse or child of H-1B	Yes
L-1A	Intracompany transfer - managerial or executive	No
L-1B	Intracompany transfer - specialized knowledge	No
L-2	Spouse or child of L-1A or L-1B	Yes
O-1A	Individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures, or television industry)	No
O-1B	Individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry	No
TN	Professionals Under the North American Free Trade Agreement (NAFTA), also known as a TN (Treaty NAFTA) visa, for citizens of Canada and Mexico, under the terms of the NAFTA.	No
R-1	Temporary Religious Worker – These visas are for persons who want to enter the United States to work temporarily in religious capacities.	Yes
R-2	Spouse or child of R-1	Yes
Expiring Visas: If the authorization for temporary residency status will expire within one (1) year prior to the Note date and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.		

(iii) Deferred Action Childhood Departures (DACA), Refugee, Asylee Deferred Action for Childhood Arrivals program (DACA) are eligible on an exception basis if the borrower eligibility and income requirements are met. The underwriter must Utilize DU and process with Single Loan Exception (SLE). Refugee or asylee status granted by the USCIS is automatically eligible to work in the U.S.

(iv) Ineligible The following is U.S. immigration policy and not a Visa type. A person with any of the following statuses are not eligible:

- Deferred Enforced Departure;
- Diplomatic Immunity;
- Humanitarian Parole; and
- Temporary Protected Status.

Ineligible Visa Types	
Visa Type	Visa Description
A-1	Official foreign government (ambassador, public minister, career diplomat)
A-2	Official foreign government (other foreign government official, military); Full-time employee working only at a foreign embassy or consulate in the U.S., to perform duties which take place at an embassy.
A-3	Employee of A-1 or A-2
B-1	Business visitor
B-2	Pleasure, tourism, medical treatment visitor

BCC	Border crossing card: Mexico
C-1	Transit to the United States
C-2	Transit to the United Nations
C-3	Transit to the United States (Foreign Government officials)
C-4	Transit - Department of Homeland Security
C-1/D	Transit - Certified crew member combination
CR1/CR6	Spouse of a U.S. Citizen - married for less than two (2) years; Given while waiting for Green Card/permanent resident card
D-1	Certified crew member - sea or air
D-2	Certified crew member - fishing vessel
F-1	Academic student: Academic study at a private elementary school, high school, college or university, seminary, conservatory, academic institution including language training program.
F-2	Spouse or child of F-1
F-3	Academic commuter - Canada or Mexico
H-2A	Temporary or seasonal agricultural worker
H-2B	Temporary non-agricultural worker
H-3	Trainee other than medical or academic
I	Foreign media outlet (press, radio, film, or other)
IR1	Spouse of a U.S. citizen – married two (2) years or more; Given while waiting for Green Card/permanent resident card
J-1	Student - exchange visitor
J-2	Spouse or child of J-1
K-1	Fiancé(e) - purpose of marriage
K-2	Child of K-1
K-3	Spouse of a U.S. citizen
K-4	Child of K-3
M-1	Vocational student
M-2	Spouse or child of M1
M-3	Vocational student - Canada or Mexico
NATO-1	Official staff - NATO
NATO-2	Adviser - NATO
NATO-3	Clerical staff - NATO
NATO-4	Member - NATO
NATO-5	Expert - NATO
NATO-6	Civilian - NATO - "Status of Forces"
NATO-1 through NATO-6	Spouse or child of NATO 1 through NATO-6
NATO-7	Employee of NATO-1 through NATO-6
O-2	Assistant to O-1
O-3	Spouse or child of O-1 or O-2
P-1A	Internationally recognized athlete
P-1B	Internationally recognized entertainer (artist)
P-2	Performer (artist) - reciprocal exchange program
P-3	Entertainer (artist) - culturally unique program
P-4	Spouse or child of P1A, P-1B, P-2, or P-3
Q-1	International cultural exchange program
S-1/S-2 (also coded as S-5 and S-6)	Informant
S-7	Spouse or child of S-5 or S-6
T-1	Victim - human trafficking
T-2	Spouse of T-1
T-3	Child of T-1
T-4	Child of T-1; Parent of an under age 21 T-1

TD	Spouse or child of TN
U-1	Victim of criminal activity
U-2	Spouse of U-1
U-3	Child of U-1
U-4	Parent of an under age 21 U-1
WB	Business visitor - visa waiver program
WT	Tourist visitor - visa waiver program

(c) Non-Occupant Borrower, Guarantor, and Co-Signer

(i) Non-Occupant Borrower Non-occupant borrowers are credit applicants on a primary residence transaction who:

- Do not occupy the subject property as a primary residence;
- Has an ownership interest in the subject property as indicated on the title;
- Signs the Mortgage or Deed of Trust;
- Has joint liability for the Note with the occupant borrower; and
- Is a U.S. citizen or has a primary residence in the U.S. unless exempted due to military service with overseas assignments or is a U.S. citizen living abroad.

(ii) Guarantor or Co-Signer Guarantors or co-signers are credit applicants who:

- Do not have ownership interest in the property as indicated on the title;
- Sign all loan documents except the security instrument;
- Has joint liability for the Note with the occupant borrower;
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

Ownership Interests

All occupying and non-occupying borrowers must take title to the property in their own name or a Living Trust, be obligated on the Note or credit instrument, and sign all security instruments. The borrower must hold title to the property as a fee simple estate. However, mortgages secured by a Leasehold Estate as described in the Leasehold Estates section below may be eligible.

In community property states, the borrower's spouse is not required to be a borrower or cosigner. However, the mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

(a) Life Estate A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs. Properties vested in a life estate are not permitted.

(b) Leasehold Estate A leasehold estate is an estate or interest in real property held by virtue of a lease or sublease.

Leasehold Estate Requirements	<p>Review the lease to ensure that the lease meets all of the following requirements:</p> <ul style="list-style-type: none"> • The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land; • The leasehold estate and the improvements must constitute real property; • The leasehold estate must be insured by a title policy; • The term of the lease must run for at least ten (10) years beyond the maturity date of the mortgage, unless fee simple title will vest in borrower or HOA association at an earlier date; • The leasehold estate and mortgage is not impaired by any merger of title between the lessor and lessee or by any default of a sublessor; • An automatic renewal clause is acceptable if it verifies the terms will extend at least ten years beyond the maturity date of the loan; • All rents, other payment, or assessments that have come due must be paid; and • The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor.
Lease Provisions	<p>The lease must:</p> <ul style="list-style-type: none"> • Not contain default provisions allowing forfeiture or termination of the lease, except for nonpayment of the lease rents; • Provide assignments, transfers, mortgaging, and subletting of the leasehold unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor; • Be valid, in good standing, and in full force and effect in all respects; • Give the lender the right to receive at least 30 days' notice of any default by the borrower, and give the lender the option to either cure the default or take over the borrower's rights under the lease; • Include provisions to protect the mortgagee's interest in the event of condemnation. The lessor cannot require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee; • Provide that the borrower must pay all taxes, insurance and homeowners' association dues and any taxes on improvements; • If the lease provides for an option for the borrower to purchase the fee simple interest in the land, the purchase must be at the borrower's sole option, there can be no time limit within which the option must be exercised, and both the lease and the option must be assignable. See Lease with Option to Purchase for full requirements; • Leases may not contain restrictions of assignability such as assignment by way of mortgage or assignment to or by the

	<p>Federal Housing Administration or Department of Veterans Affairs or upon foreclosure, nor withhold consent for assignment because of the assignee's national origin, race, color, or creed so long as the leasehold is covered by an insured mortgage, or a mortgage held by the Secretary or so long as the Secretary owns the leasehold;</p> <ul style="list-style-type: none"> • The lease must provide for the borrower to retain voting rights in any homeowners' association; and • Mortgagee must have the right to correct lessee's defaults within 120 days from receipt of notice of intent to terminate lease because of such default, or such further time as may be necessary to complete foreclosure. <p>The Leasehold Estate Checklist is available for use when reviewing eligibility for a leasehold estate</p>
Lease with Option to Purchase	<p>The lease may include an option for the borrower to purchase the fee interest in the land. If exercised, the mortgage becomes a lien on the title in the same lien priority it had on the leasehold.</p> <p>The purchase price of the land is established based on the status of the property improvements.</p> <ul style="list-style-type: none"> • If the property improvements exist at the time the lease is executed, the purchase price is the appraised value of the land on the date the lease was executed; and • If the property improvements exist at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI), the initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. <p>Note: The purchase price may be adjusted annually during the term of the lease to reflect the percentage of increase or decrease from the prior year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p> <ul style="list-style-type: none"> • If the improvements will be constructed after the lease is executed, the purchase price should be the lower of the following: <ul style="list-style-type: none"> ◦ The current appraised value of the land; or ◦ The result of the following: $\text{Appraised Land Value alone} \div \text{Original Total Appraised Value} = \% \times \text{Current Total Appraised Value}$ <p>Example: Assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value were \$225,000, \$50,000 for the land and \$175,000 for improvements, the purchase price would be \$50,000 (current appraised value of the land, since is less than 25% of \$225,000)</p> <p>Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p>

Loans to Trusts

(a) Inter Vivos Revocable Trust It is unacceptable to instruct the borrower to deed the subject property out of a trust into their personal name for the purposes of obtaining financing and avoiding Trust approval. If the borrower wants to remove the property from the trust in order to facilitate closing, we will require a signed written statement in the borrower's handwriting to the effect that (i) they made the decision to deed the property out of the trust of their own accord, (ii) they were not advised to take this action by any party to the loan transaction (lender, broker, escrow/settlement agent), (iii) this action is not intended to influence the lending process in any way, and (iv) they understand the legal implications of this decision. An inter vivos revocable trust (living trust) is a trust:

- Created by an individual during his or her lifetime;
- Becomes effective during its creator's lifetime; and
- Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime.

(b) Trust and Trustee Requirements Review the trust agreement (or the summary or certification of the trust agreement if applicable) to ensure that the living trust meets all of the requirements below:

- The trust is established by one (1) or more natural persons, solely or jointly. The person establishing the trust is known as the "Settlor," "Trustor," or "Grantor" (referred to below as "Settlor");
- The Settlor is the primary beneficiary of the Trust. If there is more than one (1) Settlor, there can be more than one (1) primary beneficiary;
- The income or assets of at least one (1) individual establishing the trust must be used to qualify for the loan;
- The trustee(s) must include either:
 - The individual establishing the trust (or at least one (1) of the individuals, if there are two (2) or more); or
 - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note;
- In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee;
- For a property that is the borrower's primary residence, at least one (1) individual establishing the trust must occupy the security property and sign the loan documents;
- The loan may not be Texas Equity Loan subject to Article XVI, Section 50(a) (6) and 50(g) of the Texas Constitution;
- There is no unusual risk or impairment of lenders' rights, such as distributions required to be made in specified amounts other than net income; and
- The trust is valid under law.

(c) Certification of Trust For properties in California, a CA Trust Certification completed by the borrower or the borrower’s attorney is acceptable in lieu of the full trust documents. The title commitment is still required. Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, this exception cannot be applied, and the complete trust documents must be provided. This exception to trust documentation is ONLY for properties located in California.

(d) Title and Title Insurance Requirements The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:

- In the trustee of the inter vivos revocable trust;
- Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower; and
- In the trustee of more than one (1) inter vivos revocable trust.

If title will be vested in the trustees of more than one (1) inter vivos revocable trust, the terms of the two revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

(e) Ineligible Trust The following trusts are ineligible:

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

FHA 203(h) Mortgage Insurance for Disaster Victims

The Section 203(h) program allows FHA to insure mortgages to victims of a major disaster who have lost their homes and are in the process of purchasing a single family property.

This program provides federal government assistance to victims in Presidentially- Declared Major Disaster Areas (PDMDA) recovery by making it easier for them to get mortgages and become homeowners or re-establish themselves as homeowners.

Document and verify that the borrower’s previous residence was in the disaster area and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Borrowers must provide conclusive. If purchasing a new house, the house need not be located in the area where the previous house was located.

(a) Evidence of Property in a Disaster Area

Conclusive evidence of...	Includes...
a permanent residence in the affected area	<ul style="list-style-type: none"> • a valid driver’s license; • a voter registration card; or • utility bills.
destruction of the residence	<ul style="list-style-type: none"> • an insurance report; • an inspection report by an independent, fee inspector or government agency; or • conclusive photographic evidence showing the destruction or damage.

(b) Eligibility and Documentation

Application Deadline	Application must be dated within one year of the President’s declaration of the disaster.
Property Eligibility	<ul style="list-style-type: none"> • The previous residence (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. • A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency (FEMA). • The purchased or reconstructed Property must be a Single Family Property or a unit in an FHA-Approved Condominium Project.
Minimum Required Investment	No minimum required investment
Underwriting	<ul style="list-style-type: none"> • An attempt should be made to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. • Where traditional documentation is unavailable, alternative documentation may be obtained, identified in Credit, Liabilities, Income, Assets. Where specific requirements are not provided in these sections, reasonable, alternative documentation may be used.
Credit	Borrowers may be considered a satisfactory credit risk if the credit report: <ul style="list-style-type: none"> • Indicates no derogatory credit events prior to a disaster; and • Any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster. • Pre-disaster credit must be thoroughly reviewed with no derogatory events permitted.
Income	If prior employment cannot be verified because records were destroyed by the disaster and the borrower is in the same/similar field, the following will be accepted:

	<ul style="list-style-type: none"> • IRS Form W-2s and individual income tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income. • Short-term employment obtained following the disaster in the effective income <p>Every attempt should be made to obtain current and prior traditional employment and income documentation.</p>
Liabilities	<p>The mortgage payment on the destroyed residence located in a PDMDA from the DTI ratio subject to the following:</p> <ul style="list-style-type: none"> • Obtain information that the borrower is working with the servicing lending to appropriately address their mortgage obligation; and • Apply any property insurance proceeds to the mortgage of the damaged house.
Assets	<p>If traditional asset documentation is not available, statements downloaded from the borrower's financial institution website to may be used to confirm sufficient assets for closing.</p>
Housing Payment History	<p>Disregard any late payments on a previous obligation on a property that was destroyed or damaged in the disaster where the late payments were a result of the disaster.</p>
Closing Costs and prepaid expenses	<p>Must be paid by the borrower in cash or paid through premium pricing or by the seller, subject to 6% seller concessions.</p>
CAIVRS	<p>If the borrower is reported in CAIVRS, but the credit report indicates the loan was current prior to the disaster, and any delinquency or claim paid can be related to the effects of the disaster, the borrower may be considered eligible.</p>

Ineligible Programs

The following programs are not eligible:

- Good Neighbor Next Door
- Graduated Payment Mortgage (GPM)
- Growing Equity Mortgages (GEM)
- HFA Programs
- Hope for Homeowners
- HUD REO \$100 Down
- Section 247 Hawaiian Home Lands

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Transaction Types

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Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property;
- Convert an interim construction loan or term Note into permanent financing; or
- Pay off the outstanding balance on the installment land contract or contract for deed.

Complete purchase agreements, including all addenda, are required for all purchase transactions. All purchase agreement terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated. Examples of undisclosed conditions are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

The borrower(s) name(s) must match the FHA Connection (FHAC), the sales contract, and the Note.

Borrower-paid settlement fees that are Paid Outside of Closing (POC) toward the minimum required investment will be considered only if all of the following are met:

- The seller and/or lender credits are less than 6% of the sales price;
- The seller and/or lender credits are sufficient to cover the closing costs and prepaid expenses paid at closing and the POCs; and
- The file contains evidence the borrower paid the POCs from their own funds and not from a credit card.

Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The closing disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund;
- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees);
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program; and
 - Where real estate taxes are paid in arrears; the seller's real estate tax credit may be used to meet the MRI. Documentation evidencing the borrower has enough assets to meet the MRI and the borrower paid closing costs at the time of underwriting is required.

Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction (except for mortgage insurance).

(a) Owner of Record and Chain of Title The file must contain evidence that the seller is the owner of record. The transaction may not involve any sale or assignment of the sales contract. If the property was sold within 12 months prior to the case number assignment date, review evidence of prior ownership and determine if there are any undisclosed identity of interest transactions and for compliance with Property Flipping (below). Documentation may include, but is not limited to:

- A property sales history report;
- A copy of the recorded deed from the seller;
- Other documentation, such as a copy of a property tax bill, title commitment, or binder, recorded deeds, demonstrating the seller's ownership of the property and the date it was acquired;
- Copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment;
- A transaction where the property was previously sold within the last 12 months requires scrutiny to ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are not supported; and
- In purchase transactions where the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property.
- Transactions involving any sale or assignment of the sales contract are not permitted.

(b) Conflict of Interest Parties acting in multiple roles in a single mortgage transaction are not eligible. For example:

- The real estate agent (selling agent or buyer's agent) for the subject property may not function as the loan officer for the borrowers purchasing the same subject property;
- The loan officer may not take their own application; and
- Husbands and wives working as loan officers/real estate agents may not receive direct or indirect compensation.

(c) Property Flipping Property flipping is indicative of a practice whereby a recently acquired property is resold for a considerable profit with an artificially inflated value, often with the help of an appraiser. Property flipping refers to the purchase and subsequent resale of a property in a short period of time. The seller's date of acquisition refers to the date the seller acquired legal ownership of that property. The resale date refers to the date all parties have executed the sales contract that will result in the mortgage for the resale of the property. The below resale restrictions do not apply to resale or holding-period clauses restricting the buyer from reselling the property.

Resale 90 Days or Fewer	A property being resold 90 days or fewer following the date of acquisition by the seller are not eligible.
Resale 91 to 180 Days	Properties sold between 91 days and 180 days after acquisition by the seller are eligible. A second appraisal is required by another appraiser if the resale price is 100% or more over the price paid by the seller to acquire the property. See Chapter 2J Appraisal Requirements, 2J.6 FHA Appraisal Requirements for second appraisal requirements. If the second appraisal supports a value that is more than 5% lower than the value of the first appraisal, the lower value must be used as the property value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.
Exceptions to Time Restrictions on Resale	<p>Exceptions to time restrictions on resale are:</p> <ul style="list-style-type: none"> • Properties acquired by an employer or relocation agency in connection with the relocation of an employee; • Resales by HUD under its REO program; • Sales by other U.S. government agencies of single-family properties pursuant to programs operated by the agencies; • Sales of properties by nonprofits approved to purchase HUD-owned single-family properties at a discount with resale restrictions; • Sales of properties that are acquired by the seller by an inheritance; • Sales of properties by state and federally chartered financial institutions and Government; • Sponsored Enterprises (GSE); • Sales of properties by local and state government agencies; and • Sales of properties within Presidentially Declared Major Disaster Areas, only upon issuance of notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a borrower using FHA-insured financing.

(d) Identity of Interest Transactions (Non-arm's length transaction) An identity of interest transaction is a sale between:

- Parties with an existing business relationship (an association between individuals or companies entered into for commercial purposes); or
- Family members, defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status. A family member is defined as follows, regardless of actual or perceived sexual, 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 stepparent/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, stepbrother, sister, stepsister
 - Uncle or aunt
 - In-law of the borrower

The maximum LTV for Identity of Interest transactions on primary residences is 85% and 100% CLTV.

The maximum LTV for a transaction where a tenant-landlord relationship exists at time of contract execution is 85%. Refer to Chapter 2G Assets, 2G.3(a)

(ii) Inducement to Purchase regarding rent below market value.

Exception to Maximum LTV	
Family Member Transactions	<p>The 85% LTV restriction may be exceeded if a borrower purchases as their primary residence.</p> <ul style="list-style-type: none"> • The primary 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 (6) months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required. • Maximum 100% CLTV.
Builder's Employee Purchase	<p>The 85% LTV restriction may be exceeded if an employee of a builder, who is not a family member, purchases one (1) of the builder's new houses or models as a primary residence.</p>
Corporate Transfer	<p>The 85% 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.</p>
Tenant Purchase	<p>The 85% LTV restriction may be exceeded if the current tenant purchased the property where the tenant has rented for at least six (6) months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</p>
Non-occupying Borrower	<p>Non-occupying borrower transactions are eligible up to 75% LTV. The LTV may be increased to a maximum of 96.5% if the borrowers are family members, provided the transaction does not involve:</p> <ul style="list-style-type: none"> • A family member selling to a family member who will be a non-occupying co-borrower; or • A transaction on a two- to four-unit property.

(e) Purchasing a Short Sale A borrower purchasing a property from a seller who is selling their home for less than the amount owed is considered a short sale and is eligible subject to the following:

- The transaction is arm's length involving a realtor and formal sales contract;
- There is no relationship or identity of interest between buyer and seller;
- Short sale approval letter from all existing mortgage lien holders accepting the discounted sales price on the subject property is provided;
- All liens are extinguished with the sales proceeds;
- The borrower is not involved in negotiations with the lien holder(s) to facilitate the short sale.

Borrowers may pay additional fees, assessments, or payments in connection with acquiring a short sale property that are typically the responsibility of the seller or another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees); however, this fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction;
- Payment to a subordinate lienholder; and
- Payment of delinquent taxes or delinquent HOA assessments.

When the borrower has elected to pay additional fees or payments, the following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented;
- The servicer that is agreeing to the short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien;
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional

fees, assessments, or payments. This can be accomplished by using the “Request for Approval of Short Sale” or “Alternative Request for the Approval of Short Sale” forms published by the U.S. Treasury Supplemental Directive 09–09 or any alternative form or addendum; and

- The Closing Disclosure must include all fees, assessments, and payments included in the transaction.

(f) Intermediary Companies Intermediary Companies (IC) are entities that generally provide cash-offer assistance programs for the sale of the borrower’s departing residence and/or the purchase of the borrower’s new residence. An IC may be identified through the purchase agreement or through a separate contract. Examples of Intermediary Companies programs are Homeward, RibbonCash Offers, and Zoom Casa. All property flipping and identity of interest (tenant/landlord) guidelines apply.

(i) Typical Intermediary Company Offerings

- The IC purchases the borrower’s departing residence for cash. This allows the borrower to make a cash offer on the new purchase transaction. All standard departing residence guidelines apply.
- The IC guarantees the seller that the IC will purchase the home for cash if borrowers, using financing, cannot meet the required closing date.
 - If the borrower can meet the closing date with financing, generally the borrower would pay the IC a fee.
- The IC purchases the borrower’s new property for cash and subsequently sells the property to the borrower with the borrower using standard financing.
 - This scenario may include
 - Fees paid to the IC by the borrower(s).
 - Increased purchase price on the subject property between the IC and the borrower(s).
 - Rent back agreement between IC and borrower(s).
 - May include “appraisal protection” for an additional fee.

(ii) Requirements and Documentation

Cash Purchase – New Residence	Departing Residence
<ul style="list-style-type: none"> • Allowed on FHA 203(b) product. • All property flipping requirements apply; • Maximum LTV for Tenant Purchase transactions apply, when applicable (borrower renting back from IC); • Fees paid to the IC are required to be accurately disclosed on the Loan Estimate (LE) and the Closing Disclosure (CD). Each Fee Name and Payee should be accurately reflected; • All funds for the down payment, closing costs, reserves, etc. must be documented and sourced per standard program guidelines, see specific program guidelines for details; • Rent paid to the IC from the borrower is not permitted to be used towards the borrower’s down payment and/or minimum contribution requirement; • Title must accurately reflect property ownership through the chain of title review; • The IC must be the “owner of record” at the time the purchase agreement is executed between the IC and the borrowers and when the appraisal is ordered on the borrower’s purchase transaction; • An assignment of the purchase agreement is not allowed; and • The appraiser must analyze the purchase agreement and comment on any financing and/or sales concessions in the appraisal report. 	<p>If the IC purchases the borrower’s departing residence for cash, standard departing residence guidelines apply, including obtaining the fully executed final seller Closing Disclosure. This evidencing the lien(s) being paid, and the release of net proceeds to the borrower(s).</p>

Refinance Mortgage

A refinance transaction is used to pay off the existing debt or withdraw equity from the subject property with the proceeds of the new mortgage for a borrower with legal title to the subject property.

The following are applicable to all refinance transactions:

- Title must be in the name of at least one (1) borrower prior to loan application for refinance transactions;
- Careful consideration must be given to properties currently listed for sale;
- For FHA-to-FHA refinance transactions, Refinance Authorization information must be obtained at case number assignment;
- The refinance of an existing mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state is not permitted; and
- If the subject property is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a mortgage, a certification from the borrower stating the mortgage being refinanced was not subject to eminent domain condemnation or seizure must be obtained.

The following refinance transaction types are acceptable.

<p>No Cash-out Refinance</p> <p>A No Cash-out Refinance mortgage represents a lien that is used to pay off the existing mortgage or lien with a new mortgage. Cash removal, other than incidental cash, is not permitted.</p>

There are three (3) types of No Cash-out Refinance mortgages.

Rate and Term Refinance	<p>A Rate and Term Refinance is a no cash-out refinance of any mortgage in which the proceeds are limited to the purpose of paying off the existing debt and associated costs.</p> <p>Loan amount may include:</p> <ul style="list-style-type: none"> • Unpaid principal balance (including accrued interest, MIP due, late fees, and escrow shortages, if applicable), regardless of seasoning; • Allowable closing costs, and prepaid expenses; • Minus MIP refund (if originally financed in the mortgage); • Incidental cash back up to \$500; • Borrower paid repairs required by the appraiser; • Unpaid principal balance of any PACE obligation; and • Satisfaction of junior liens seasoned for at least one (1) year from funding unless lien was incurred as part of acquisition or for home improvements of the subject property. <ul style="list-style-type: none"> ◦ Regardless of the age of a HELOC, if draws more than \$1,000 were advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property that portion above \$1,000 is not eligible for inclusion in the new mortgage.
Simple Refinance	<p>A Simple Refinance is a no cash-out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay off the existing FHA-insured mortgage on the subject property and the associated costs.</p> <p>Loan amount may include:</p> <ul style="list-style-type: none"> • Unpaid principal balance (including accrued interest, MIP due, late fees and escrow shortages, if applicable), regardless of seasoning; • Allowable closing costs and prepaid expenses; • Minus MIP refund (if originally financed in the mortgage); • Unpaid principal balance of any PACE obligation; • Incidental cash back up to \$500; and • Borrower-paid repairs required by the appraiser. <p>Loan amount may not include equity buyout, payoff of junior liens or prepayment penalties.</p>
Streamline Refinance	<p>A Streamline Refinance is a no cash-out refinance of an existing FHA-insured mortgage requiring limited credit documentation and underwriting, with two (2) options:</p> <ul style="list-style-type: none"> • Credit Qualifying; and • Non-Credit Qualifying. <p>Net Tangible Benefit</p> <ul style="list-style-type: none"> • The Net Tangible Benefit is a reduced Combined rate, a reduced term, and/or a change from an ARM to a Fixed Rate Mortgage that results in a financial benefit to the borrower. • Combined Rate refers to the interest rate on the new mortgage plus the MIP. • Refer to our Product Summaries for the permissible minimum thresholds to define net tangible benefit.
Cash-out Refinance	<p>Cash-out Refinance transactions are mortgages used to remove equity from a property. Funds received from a cash-out refinance loan are not limited to a specific purpose. A property being refinanced that is owned free and clear is considered a cash-out refinance.</p>
<p>Refer to our Product Summaries for complete requirements for all refinance transactions.</p>	

Other Rate and Term Refinance Transactions

(a) Buy Out Title Equity Holder A refinance transaction that results in a buyout of the other party's interest in their primary residence is considered a rate and term refinance, (e.g., divorce settlement, or buyout of a sibling, etc.) and is permitted subject to all of the following:

- All parties must provide a signed, legally enforceable agreement that states the terms of the property transfer and the disposition of the proceeds (divorce decree or separation agreement, or legally enforceable equity agreement);
- The borrower who acquires sole ownership of the property may receive no cash-out from the proceeds of the refinance; and
- The party who is buying out the other party's interest must be able to qualify for the loan.

Refer to our Product Summaries for complete guidelines.

(b) Owelty Liens-Texas Only The payoff of an owelty lien may be treated as a rate and term refinance transaction and is not subject to Texas Section 50(a)(6) Home Equity requirements. The divorce decree and separation agreement must be recorded.

(c) Short Pay Off A rate and term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt may be eligible provided the existing note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured mortgage.

(d) Refinance Existing FHA Section 203(k) Loan Loans closed under Section 203(k) may be refinanced into a Section 203(b) mortgage and will be subject to all of the following requirements:

- Upfront MIP and monthly MIP apply on the new loan even if upfront MIP was not charged on the existing 203(k) loan;
- All rehabilitation work must be completed before the loan can be refinanced; and
- Any remaining funds in escrow accounts must have been disbursed.

The rehabilitation work may be documented as complete with the current servicing lender providing all of the following documentation:

- A letter of completion;
- A Notice of Final Release showing they have closed the rehab escrow account; and
- The 203(k) Close Out screen in FHA Connection must be completed and a printout of the FHA Connection Electronic Certificate of Close Out screen must be included in the file.

(e) Inherited Properties The following limitations apply in cases where the subject property was inherited:

- Borrower must hold title to the property;
 - Owner occupied primary residence only;
 - The borrower is not required to occupy the property for a minimum period of time provided the property has not been treated as an investment property since inherited;
 - If the property has been rented since inheritance, it is not eligible for a cash-out refinance until the borrower has occupied the property for 12 months.
- LTV is based on appraised value regardless of amount of time owned;
- Document inheritance through copy of will, probate document or other type of land record; and
- Holding title for the past 12 months is waived for cash-out refinance eligibility.

(f) Texas Equity Refinance A first mortgage cash-out refinance or rate and term refinance secured by the borrower's homestead are Texas Equity Loans and must meet the requirements of Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution if the borrower receives any amount of cash at closing. First mortgage Texas Equity Loans are not eligible. A first mortgage rate and term refinance originated to pay-off an existing Texas 50(a)(6) Home Equity Loan may be refinanced as a Texas 50(a)(4) Non-Home Equity loan if the following conditions are met:

- Loan to be paid must be seasoned for 12 months from the date the loan was closed;
- No additional funds are advanced other than funds advanced to refinance a debt under Texas Constitution Art. XVI, Section 50(a)(1) through (a) (7) or actual costs and reserves required to refinance the debt;
- The principal amount of the refinance, when added to the aggregate total of the outstanding principal balances of all valid encumbrances of record against the homestead, does not exceed 80% of the homestead's fair market value on the date of the refinance;
- No new subordinate financing;
- The owner is provided with the written notice prescribed in the Constitution on a separate document within three (3) business days of the application and at least 12 days before the date the refinance is closed;
- An Interior and Exterior Appraisal Report is required; and
- Lender must provide the Notice of Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) no later than the third business day after the loan application date and at least 12 days prior to closing.

Texas 50(f)(2) Determination		
New loan amount pays off existing lien and...	Existing lien is non-50(a)(6), the new lien is..	Existing lien is 50(a)(6), the new lien is...
Provides even \$1 cash to borrower	Texas 50(a)(6)	Texas 50(a)(6)
Pays off/down existing 50(a)(6) lien with no cash to borrower	Texas 50(a)(6)	Texas 50(f)(2)
Pays off/down existing 50(a)(6) lien with cash to borrower	Texas 50(a)(6)	Texas 50(a)(6)
New lien is < existing UPB (no new funds)	Non-Texas 50(a)(6)	Texas 50(f)(2)
Funds, prepaids and/or closing costs	Non-Texas 50(a)(6)	Texas 50(f)(2)
Pays off/down purchase money second	Non-Texas 50(a)(6)	Texas 50(f)(2)
Pays off/down existing Secured Home Improvement loan (mechanic's lien)	Non-Texas 50(a)(6)	Texas 50(f)(2)
Provides funds to satisfy a court-ordered divorce equity buyout (owelty lien)	Non-Texas 50(a)(6)	Texas 50(a)(6)
Borrower may elect to have loan remain a Texas 50(a)(6). Refer to Texas 50(a)(6) Product Summary.		

All other requirements contained in this Underwriting Guide, including the requirements in the Product Summaries; apply to Texas Home Equity Loans unless

(g) New York Consolidation, Extension, and Modification Agreement (CEMA) Permitted for a refinance transaction.

Installment Land Contracts

Purchase	The transaction is considered a purchase if the loan will be used to complete payment on a land contract, contract for deed or similar type of financing arrangement in which the borrower does not have title to the property (unrecorded land contract).
No Cash-out Refinance	The transaction is considered a no cash-out refinance if the loan will be used to complete payment on a land contract, contract for deed or similar type of financing arrangement in which the borrower does have title to the property (recorded land contract). The unpaid principal balance will be considered the outstanding balance on the recorded land contract.

The Adjusted Value is based on the following:

- Properties acquired (date of land contract) less than 12 months from the date of the case number assignment use the lesser of the outstanding balance on the land contract or the property value; and
- Properties acquired (date of land contract) 12 months or more from the date of the case number assignment, use the property value.

HUD Employee Loans

The loan must be scored through TOTAL Mortgage Scorecard. If the file receives an Accept, the underwriter must underwrite the loan (but not issue an approval) and submit the application to the Jurisdictional Home Ownership Center (HOC) for final underwriting approval.

HUD Real Estate Owned Properties

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

(a) Insured REO Property Purchase An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a borrower with a new FHA-insured mortgage.

Program	Eligibility
Section 203(b)	The HUD REO property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.
Section 203(b) with Repair Escrow	<ul style="list-style-type: none"> • The HUD REO property does not meet HUD's MPR in its as-is condition, but if repairs of no more than \$10,000 are completed, the HUD REO property would meet HUD's MPR. • An escrow account to complete the repairs necessary to meet MPR after closing is required. The Repair Completion Escrow Requirements must be complied with.
Section 203(k)	The HUD REO Property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow and is eligible for FHA-insured financing only under Section 203(k).
\$100 Down	<ul style="list-style-type: none"> • The \$100 Down sales incentive permits a borrower to purchase a HUD REO property with FHA-insured financing with a minimum down payment of \$100. • \$100 Down purchases may be processed as Section 203(b), Section 203(b) with Repair Escrow, or Section 203(k).

(b) Sales Contract The sales contract for HUD owned properties will be completed on HUD-9548, Sales Contract Property Disposition Program, any applicable addenda, which will establish the purchase price, price discount, eligibility for \$100 Down, and meet the requirements for the sales contract.

Sale Contract Terms	<ul style="list-style-type: none"> • Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the borrower is applying, the down payment, and the mortgage amount. • Regardless of the Insured HUD REO Property Purchase Program entered on Line 4, eligibility of the borrower and the specific program must be determined.
\$100 Down	<ul style="list-style-type: none"> • Where the borrower has been approved for the \$100 Down sales incentive, the amount of the cash down payment specified on Line 4 will be \$100. • This down payment program allows borrower to purchase HUD REO properties using FHA insured financing with a minimum \$100 down payment instead of the standard 3.5% down payment requirement. Line 4 of the form HUD-9548 HUD Sales Contract must reflect \$100 down payment.
Closing Costs and Sales Commission Paid by HUD	<ul style="list-style-type: none"> • The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the borrower. The amounts on Line 6a and 6b represent the sales commission HUD will pay to the selling and listing broker. • Contributions by HUD toward the Borrower's closing costs are not defined as interested party contributions or inducements to purchase.

(c) Ordering Case Numbers A new case number must be ordered. Select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO property in the Prior Case Number field, which can be found on the top right-hand corner of form HUD-9548.

(d) Appraisal Requirements A new appraisal is always required in accordance with standard appraisal requirements. Refer to Chapter 2J FHA Appraisal Requirements. HUD REO properties must either meet FHA Minimum Property Requirements or the property is designated as insurable with repair escrows.

(e) Maximum Mortgage Amount Calculate the mortgage amount for the FHA 203(b) loan and add the amount of an escrow account of repairs after closing.

(f) Work Completion Escrows Financed repair escrows to a maximum of \$11,000 (\$10,000 plus mandatory 10% contingency cushion) permitted. Refer to the Escrow Holdback Policy for specific requirements for work completion escrows.

New Construction

New construction refers to Proposed Construction, Under Construction and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100% completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a property that is 100% complete and has been completed less than one (1) year from the date of the issuance of the CO or equivalent. The property must have never been occupied.

FHA treats the sale of an occupied property that has been completed less than one (1) year from the issuance of the CO or equivalent as an Existing property. See 2B.7(c) Manufactured Home (By Construction Status at Time of Appraisal) Inspection requirements for Maximum Financing.

(a) New Construction Eligible Property Types The following property types are eligible for New Construction financing:

- Site Built Housing (one- to four-units)
- Condo units in approved projects or legal phases

Self-built homes and borrower acting as general contractor is not permitted.

(b) Site Built Housing (By Construction Status at Time of Appraisal)

Proposed Construction	<p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • Three (3) inspections (footing, framing and final) performed by the local authority with authority over the subject property or an International Code Council (ICC)-Certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (for modular housing, footing and final only); or • In the absence of such ICC-certified RCI or CI, obtain three (3) inspections (footing, framing and final) performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located.
Under Construction	<p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • A final inspection issued by the local authority with authority over the property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located.
Existing Less than One Year	<p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • A copy of the CO (or equivalent); • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located.

(c) Manufactured Home (By Construction Status at Time of Appraisal) Inspection requirements for Maximum Financing Existing construction refers to a property that has been 100% complete for over one (1) year or has been completed for less than one (1) year and was previously occupied. See Chapter 2D Property Types, 2D.1(i) Manufactured Housing, for complete manufactured housing requirements. New construction for manufactured housing is a manufactured home that has been permanently erected on a site for less than one (1) year prior to the case number assignment.

Proposed Construction	<ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • Two (2) inspection (initial and final) performed by the local authority with jurisdiction over the subject property or an International Code Council (ICC)-certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (for modular housing, footing and final only); or • In the absence of such ICC-certified RCI or CI, obtain two (2) inspections (initial and final) performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located.
Under Construction	<p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the subject property is located.
Existing Less than One Year	<p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • A copy of the CO (or equivalent); • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or

- CI; or
- In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the subject property is located.

(i) Perimeter Enclosure The space beneath manufactured homes must be properly enclosed and therefore must:

- Be a continuous wall (whether bearing or non-load bearing);
- Be secured to the perimeter of the unit; and
- Allow for proper ventilation of the crawl space.

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete, masonry or treated wood) and the PFGMH for foundations.

Documentation Required for All New Construction

All of the following documentation must be obtained:

- Form HUD-92541, Builder’s Certification of Plans, Specifications, and Site;
- Form HUD-92544, Warranty of Completion of Construction.
- Required inspections, as applicable.
- Inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, must be reported on Form HUD-92051, Compliance Inspection Report, or on an appropriate state-sanctioned inspection form.
- When a third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor is relied upon for required inspections due to the absence of an ICC certified RCI or CI, include certification from such inspector that they are licensed and bonded under applicable state and local laws to perform the type of inspection completed.
- Wood Infestation Report, unless the subject property is located in an area of no to slight infestation as indicated on HUD’s “Termite Treatment Exception Areas” list:
 - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder’s Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The builder must note on the form that the construction is masonry, steel, or concrete.
 - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when the new construction property is treated with one (1) of the following:
 - Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide; or
 - Physical Barrier System is installed, as reflected on the HUD-NPMA-99-A.

The use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation is not acceptable.

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

(a) Documents to be Provided to the Appraiser at Assignment All new construction must meet HUD’s Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

- A fully executed Form HUD-92541, Builder’s Certification of Plans, Specifications, and Site, signed and dated no more than 30 days prior to the date the appraisal was ordered.
- For properties 90% completed or less, a copy of the floor plan, plot plan, and any other exhibits necessary to allow the appraiser to determine the size and level of finish of the house they are appraising.
- For properties greater than 90% but less than 100% completed, a list of components to be installed or completed after the date of inspection.

Refer to Chapter 2J Appraisal Requirements for New Construction review of the appraisal.

Building on Own Land–Two-Close Transactions

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the borrower and may include the extinguishing of any construction loan.

Building on Own Land is considered a two-close transaction that requires the closing of a construction loan and then obtaining a mortgage once the construction is complete.

Eligibility	The borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The borrower may not function as the general contractor.
Maximum Mortgage	The maximum mortgage amount is calculated using the appropriate purchase LTV percentage of the lesser of the appraised value or the documented acquisition cost. Acquisition Costs of the property includes: <ul style="list-style-type: none"> The builder’s price or the sum of all subcontractor bids and materials (For Manufactured Housing, the builder’s price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer’s lot to the installation site, and all on-site installation.);

	<ul style="list-style-type: none"> • Borrower-paid options and construction costs not included in the builder's price to build; • Interest and other costs associated with a construction loan obtained by the borrower to fund construction, if applicable; and • Either of the following: <ul style="list-style-type: none"> ◦ The lesser of the cost of the land, or appraised value of the land, if the land is owned six (6) months or less at case number assignment; or ◦ The appraised value of the land if the land has been owned for greater than six (6) months at case number assignment or was received as an acceptable gift.
Minimum Required Investment (MRI)	<p>The borrower may use any cash investment in the acquisition cost of the subject property or land equity to satisfy the MRI.</p> <p>The cash investment must be from an acceptable source of funds.</p> <p>If the land was given as a gift to the borrower, verify that the donor was not a prohibited source. Obtain standard gift documentation requirements for any gift of land.</p>
Borrower's Additional Equity in the Property	The borrower may not receive cash back from the additional equity in the property but may be reimbursed their own cash outlay for any borrower-paid extras over and above contract specifications and any out-of-pocket expenses not included in the builder's price. An itemization of the extras and expenses and the additional costs of each item must be obtained.
Documentation	<p>All new construction requirements must be complied with. In addition, the date of the purchase of the land must be documented with the Closing Disclosure or similar legal document.</p> <p>Evidence must be obtained to verify that the funds used to pay borrower-paid options were derived from an acceptable source, including an itemization of the options and expenses, and cost of each item.</p>

Energy Efficient Mortgages (EEMs)

The Energy Efficient Mortgage (EEM) program allows for financing for cost-effective energy efficient improvements to an existing property at the time of purchase or refinancing, or for upgrades above the established residential building code for New Construction.

Cost Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

Property Types	<ul style="list-style-type: none"> • New Construction Properties (one- to four-units) • Existing Construction Properties (one- to four-units) • Condominiums (one unit) • Manufactured Housing 		
Programs and Transaction Types	The EEM program can be used with the 203(b) Purchase and No cash-out Refinance products.		
Energy Package	The energy package is the set of improvements agreed to by the borrower based on recommendations and analysis performed by a qualified home energy rater. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the borrower desires, labor may include the cost of an EEM Facilitator (project manager).		
	<table border="1"> <tr> <td>Cost Effective Test</td> <td> <ul style="list-style-type: none"> • The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements </td> </tr> </table>	Cost Effective Test	<ul style="list-style-type: none"> • The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements
	Cost Effective Test	<ul style="list-style-type: none"> • The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements 	
	Cost Effective Test for New Construction	<ul style="list-style-type: none"> • For New Construction, the financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following: <ul style="list-style-type: none"> ◦ The latest energy code standard that has been adopted by HUD through a Federal Register notice; or ◦ The applicable IECC year used by the state or local building code for New Construction. ◦ More information on this energy code can be obtained from the Department of Energy or the International Code Council. 	
Changes to Energy Package after Closing	<ul style="list-style-type: none"> • If the work that is done differs from the approved energy package, a change order along with a revised home energy audit must be submitted to the DE underwriter for approval. • If the changes still meet the cost-effective test, no further analysis is required. If not, the funds for the work not included in the approval energy package must be used to pay down the mortgage principal. 		
Home Energy	The borrower must obtain a home energy assessment. The purpose of the energy assessment under the EEM program		

Report/Assessment	<p>is to identify opportunities for improving the energy efficiency of the home and their cost effectiveness. The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols, and procedure.</p> <table border="1"> <tr> <td data-bbox="443 181 687 450">Qualification of Energy Raters/Assessors</td> <td data-bbox="687 181 1428 450"> <p>Qualified home energy raters/assessors must be trained and certified as one (1) of the following:</p> <ul style="list-style-type: none"> • Building Performance Institute Building Analyst Professional; • Building Performance Institute Home Energy Professional Energy Auditor; • Residential Energy Services Network Home Energy Rater; or • Energy rater, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure, and insurance requirements. </td> </tr> <tr> <td data-bbox="443 450 687 674">Home Energy Report</td> <td data-bbox="687 450 1428 674"> <ul style="list-style-type: none"> • The home energy report reflects recommendations of energy-saving improvements for the borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). • Use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package. </td> </tr> <tr> <td data-bbox="443 674 687 864">Home Energy Report for New Construction</td> <td data-bbox="687 674 1428 864"> <ul style="list-style-type: none"> • On Newly Constructed housing, the home energy report must identify improvements that are over and above the greater of the following: <ul style="list-style-type: none"> ◦ The requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice; or ◦ The applicable IECC year used by the state or local building code for New Construction. </td> </tr> <tr> <td data-bbox="443 864 687 1003">Documentation</td> <td data-bbox="687 864 1428 1003"> <ul style="list-style-type: none"> • Obtain a copy of the home energy report. • This report must not be greater than 120 days old. • Submit two (2) forms HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary as described in the Underwriting Section below. </td> </tr> </table>	Qualification of Energy Raters/Assessors	<p>Qualified home energy raters/assessors must be trained and certified as one (1) of the following:</p> <ul style="list-style-type: none"> • Building Performance Institute Building Analyst Professional; • Building Performance Institute Home Energy Professional Energy Auditor; • Residential Energy Services Network Home Energy Rater; or • Energy rater, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure, and insurance requirements. 	Home Energy Report	<ul style="list-style-type: none"> • The home energy report reflects recommendations of energy-saving improvements for the borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). • Use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package. 	Home Energy Report for New Construction	<ul style="list-style-type: none"> • On Newly Constructed housing, the home energy report must identify improvements that are over and above the greater of the following: <ul style="list-style-type: none"> ◦ The requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice; or ◦ The applicable IECC year used by the state or local building code for New Construction. 	Documentation	<ul style="list-style-type: none"> • Obtain a copy of the home energy report. • This report must not be greater than 120 days old. • Submit two (2) forms HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary as described in the Underwriting Section below.
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Documentation	<ul style="list-style-type: none"> • Obtain a copy of the home energy report. • This report must not be greater than 120 days old. • Submit two (2) forms HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary as described in the Underwriting Section below. 								
Maximum Financeable Energy Package	<ul style="list-style-type: none"> • The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of: <ul style="list-style-type: none"> ◦ The dollar amount of a cost-effective energy package as determined by the home energy audit; or ◦ The lesser of 5% of: <ul style="list-style-type: none"> ▪ The Adjusted Value; ▪ 115% of the median area price of a single-family dwelling; or ▪ 150% of the national conforming mortgage limit. 								
Energy Efficient Mortgage Calculator Tool	<ul style="list-style-type: none"> • Calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package. • The EEM Calculator, located in FHA Connection (FHAC) on the Case Processing screen, will perform the calculation of Maximum Financeable Energy Package. • The EEM Calculator uses data entered for the mortgage to calculate the maximum energy package. • For a Streamline Refinance, the EEM Calculator uses the appraised value from the initial transaction, contained within FHAC records, as the Adjusted Value. 								
Maximum Mortgage Amount	<ul style="list-style-type: none"> • The maximum final Base Loan Amount is determined by adding the maximum financeable energy package amount to the initial maximum Base Loan Amount. • For New Construction, the cost of the financeable energy package must be subtracted from the sales price when computing the Adjusted Value. • When using an EEM in conjunction with Weatherization, the items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs. The maximum FHA Nationwide Mortgage Limit for an area may be exceeded by the maximum financeable energy package. 								
Underwriting	<p>TOTAL</p> <ul style="list-style-type: none"> • Submit to TOTAL using the initial Base Loan Amount prior to the addition of the financeable energy package. If an Accept or Approve is received and does not include the financeable energy package, FHA will recognize the risk rating from TOTAL and permit the increase to the mortgage payment without re-underwriting or rescoring. • Must provide a form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary, without the financeable energy package, showing the qualifying ratios. • A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder. The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance. 								

	<p>Manual Underwrite</p> <ul style="list-style-type: none"> • Provide a form HUD-92900-LT, without the financeable energy package, showing the qualifying ratios. • A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. • The second form must also be included in the case binder. The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance. 				
Appraisals	<ul style="list-style-type: none"> • For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the subject property. • If the appraisal does include the value of the energy package, the value must be subtracted from the property value when computing the Adjusted Value. 				
Cash Back to Borrower	<ul style="list-style-type: none"> • The borrower may not receive cash back from the mortgage transaction. • If an excess exists, funds must be applied to the principal balance. 				
EEM Escrows	<p>For Existing properties, if the energy package items are not complete by the time of closing, establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements.</p> <table border="1"> <tr> <td>Borrower Labor</td> <td> <ul style="list-style-type: none"> • Escrows may not include costs for labor or work performed by the borrower (sweat equity). </td> </tr> <tr> <td>Form HUD-92300, Mortgagee's Assurance of Completion</td> <td> <ul style="list-style-type: none"> • When funds to complete the energy package are escrowed, execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the energy package improvements has been established. </td> </tr> </table>	Borrower Labor	<ul style="list-style-type: none"> • Escrows may not include costs for labor or work performed by the borrower (sweat equity). 	Form HUD-92300, Mortgagee's Assurance of Completion	<ul style="list-style-type: none"> • When funds to complete the energy package are escrowed, execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the energy package improvements has been established.
Borrower Labor	<ul style="list-style-type: none"> • Escrows may not include costs for labor or work performed by the borrower (sweat equity). 				
Form HUD-92300, Mortgagee's Assurance of Completion	<ul style="list-style-type: none"> • When funds to complete the energy package are escrowed, execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the energy package improvements has been established. 				
Completion Requirements for EEM	The energy package is to be installed within 90 days of the disbursement. If the work is not completed within 90 days, the EEM funds must be applied to a prepayment of the mortgage principal.				
Inspection	The Company, the rater, or an International Code Council (ICC) certified Residential Combination Inspector (RCI), or Combination Inspector (CI) may inspect the installation of the improvements. The borrower may be charged an inspection fee.				

Weatherization

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

Programs and Transaction Types	<p>Weatherization improvements may be financed in conjunction with the following:</p> <ul style="list-style-type: none"> • Section 203(b): Purchase and No cash-out refinance transaction • Energy Efficient Mortgages (EEM)
Property Types	<p>Weatherization improvements may be used on the following property types:</p> <ul style="list-style-type: none"> • Existing one- to four-units • Condominiums • Manufactured Housing
Weatherization Items	<p>Eligible energy-related weatherization items include the following measures:</p> <ul style="list-style-type: none"> • Air sealing (including weather-stripping doors, caulking window, and plumbing penetrations) • Insulation (attic, floors, walls, basement) • Duct sealing and insulation • Smart thermostats and equipment controls • Windows and doors • Low flow water fixtures • Carbon monoxide monitors and other combustion appliance safety measures
Maximum Dollar Amount	<p>The maximum allowable cost of energy-related weatherization items that can be financed is:</p> <ul style="list-style-type: none"> • \$2,000 (not to exceed actual cost) without a separate value determination; • \$3,500 (not to exceed actual cost) if supported by a value determination made by an FHA Roster Appraiser; or • No limit (not to exceed actual cost) if: <ul style="list-style-type: none"> ◦ Supported by a value determination made by an FHA Roster Appraiser; and ◦ An ICC RCI or CI makes a separate on-site inspection.
Documentation	Document the cost of work including the weatherization materials and labor.

Maximum Mortgage Amount Calculation	When determining the Adjusted Value, the dollar limit of the energy-related weatherization items may be added to both the sales price and the property value.
Weatherization Combined with Energy Efficient Mortgage	For Existing properties, energy-related weatherization items may be combined with the EEM.
Cash Back to Borrower	The borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal balance.
Escrows	<ul style="list-style-type: none"> Establish an escrow account for the remaining costs of the energy improvements if the installation of weatherization items is not complete by the time of closing for all mortgages on existing properties. Establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements. <p>Escrows may not include costs for labor or work performed by the borrower (sweat equity).</p>
Form HUD-92300, Mortgagee's Assurance of Completion	When funds to complete weatherization improvements are escrowed, the Company must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for weatherization improvements has been established.
Completion Requirements for Weatherization Measures	
Time of Completion	<p>Installation of weatherization improvements must be completed within:</p> <ul style="list-style-type: none"> 30 days of the mortgage disbursement; or 90 days of the mortgage disbursement if the improvements are part of an energy package for an EEM. <p>Apply the remaining weatherization escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames. Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.</p>
Escrow Closeout Certification	After the repair or rehabilitation escrow account is closed, the Company must complete the Escrow Closeout Certification screen in FHAC within 30 days after the escrow account is closed.
Inspection	The Company or their agent must inspect the weatherization items or obtain evidence from a local authority that the system was installed in accordance with local requirements.

Solar and Wind Technologies

The solar and wind technologies policy allows an increase to the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the subject property at the time of a purchase or refinance.

Eligible Property Types	<p>The following property types are eligible for the solar and wind technologies policy:</p> <ul style="list-style-type: none"> One- to four-unit properties Manufactured Housing <p>Condominium units are ineligible for solar and wind technologies.</p>	
Programs and Transaction Types	<p>Costs for new solar and wind energy systems may be financed in conjunction with the following:</p> <ul style="list-style-type: none"> Section 203(b): Purchase, Rate and Term, and Simple Refinance Section 203(h) Mortgage Insurance for Disaster Victims 	
Eligible Solar and Wind Technologies	Active and passive solar systems, as well as wind-driven systems, are acceptable.	
	Photovoltaic Systems	Photovoltaic systems must provide electricity for the residence and must meet applicable fire and electrical code requirement.
	Wind Turbine for Residential Properties	<p>A wind turbine must:</p> <ul style="list-style-type: none"> Have a nameplate capacity of no more than 100 kilowatts; Have a performance and safety certification from: o the International Electrotechnical Commission (IEC) standards from an accredited product certification body; or The American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and Be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization
Title to Systems	<ul style="list-style-type: none"> The borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) are not eligible. 	
Maximum Mortgage	Compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind	

Calculation – Purchase	<p>technology system and the Property Value excluding the cost and installation of the solar or wind technology system.</p> <p>Add the lesser of:</p> <ul style="list-style-type: none"> • The cost and installation of the solar or wind technology system; or • 20% of the property value to the Base Loan Amount. <p>Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.</p>	
Maximum Mortgage Calculation - Refinance	<p>Compute the Adjusted Value by using the property value without the cost and installation of the solar or wind technology system.</p> <p>Add the lesser of:</p> <ul style="list-style-type: none"> • The cost and installation of the solar or wind technology system; or • 20% of the property value to the Base Loan Amount. <p>Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.</p>	
Nationwide Mortgage Limit – Purchase and Refi	The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographical area (see Maximum Mortgage Amounts) by no more than 20%.	
Documentation	Document the cost of work, including the energy systems' materials and labor.	
Cash Back to Borrower	<ul style="list-style-type: none"> • The borrower may not receive cash back from the mortgage transaction. • If an excess exists, apply these funds to the principal balance. 	
Escrows	<p>Establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.</p> <p>Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.</p>	
	Borrower Labor	Escrows may not include costs for labor or work performed by the borrower (sweat equity).
	Documentation	When funds to complete the solar or wind energy systems are escrowed, form HUD-92300, Mortgagee's Assurance of Completion must be executed, to indicate that the escrow for the solar or wind improvements has been established.
Completion Requirements for Solar and Wind Technology Installation	Time of Completion	<p>Installations of solar and wind energy systems must be completed within 120 days of disbursement.</p> <p>Apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal, if the work is not completed within the required time frames.</p>
	Inspection	The Company or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code.
	Escrow Close Out	After the repair or rehabilitation escrow account is closed, the Company must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.

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Financing

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- Property Assessed Clean Energy (PACE)
- Mortgage Insurance Premiums (MIP)

Determining Adjusted Value

The table below provides the calculation for determining the Adjusted Value.

Purchase Mortgage	The Adjusted Value is the lesser of:
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	<ul style="list-style-type: none"> • Purchase price less any inducements to purchase; or • Property value.
No-Cash-out Refinance Mortgage	<p>The Adjusted Value is:</p> <ul style="list-style-type: none"> • Properties acquired less than 12 months from the date of the case number assignment: <ul style="list-style-type: none"> ◦ The lesser of the purchase price plus any documented improvements; or ◦ Property value. • Properties acquired 12 months or more from the date of the case number assignment and properties acquired by the borrower within 12 months by an inheritance or gift from a family member; use the property value.
Cash-out Refinance Mortgage	The Adjusted Value is the appraised value.

Calculating Loan to Value (LTV) Ratios

The table below provides the calculation for determining the LTV Ratios.

Calculating Loan to Value Ratios	LTV ratio is calculated by dividing the first mortgage amount, excluding financed UFMIP, by the Adjusted Value.
Calculating Combined Loan to Value Ratios	The CLTV ratio is calculated by dividing the sum of the first mortgage amount, excluding financed UFMIP, and the current principal balance of subordinated closed end liens and/or the maximum available credit line of subordinated open-end second liens by the Adjusted Value.
Permanently Modified HELOC	<p>If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the CLTV.</p> <p>The permanently modified HELOC must be documented with the one (1) of the following:</p> <ul style="list-style-type: none"> • Modified and recorded Note; • Recorded subordination agreement stating the credit line was permanently reduced; or • Letter from subordinate lien holder indicating a HELOC has been permanently reduced, in lieu of a recorded modification agreement. The letter must: <ul style="list-style-type: none"> ◦ Be on the lien holder's letterhead; ◦ State the permanently reduced HELOC amount; and ◦ Include the date of the HELOC reduction. <p>A comment on the credit report stating that the HELOC is permanently modified is not sufficient.</p>

Temporary Interest Rate Buydowns

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

The borrower must be qualified based on the note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note Rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event, may the buydown plan change the terms of the mortgage Note.

(a) Buydown Agreement The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement. The buydown agreement must provide for all of the following:

- Must be a written agreement between the party providing the buydown funds and the borrower;
- Must provide that the borrower is not relieved of their obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available;
- May include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied;
- Must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment; and
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.

(b) Terms of the Buydown No limit is placed on the total dollar amount of an interest rate buydown. The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period. An interest rate buydown plan must provide for:

- A buydown period not greater than 24 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

(c) Buydown Account and Funds

- The buydown funds may come from:
 - The seller;
 - The borrower (must come from borrower’s own funds and assets must be documented); or
 - Any other interested party.
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower’s only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

Financing a Repair Escrow

Financing repair escrows for purchase and no cash-out refinance transactions are permitted as long as the required repairs do not affect livability, safety, or structural soundness of the subject.

(a) Purchase Transactions Repair escrow amounts may be added to the mortgage amount when the seller will not pay for the repairs necessary to meet FHA Minimum Property Requirements (MPR). The maximum escrow amount must be based on the required repairs plus a 10% contingency. Repair costs may be added to the sale price if all of the following are met:

- The appraiser requires the repairs to meet HUD MPRs;
- The repairs are paid for by the borrower;
- The sales contract or addendum identifies the borrower as the party responsible for payment and completion of the repairs;
- The repair estimate is supported by an estimate from qualified professional or estimated by the appraiser;
- Completion of repairs must be verified, and unused escrow amounts are applied to principal balance; and
- Repairs completed by borrower prior to appraisal report are not eligible for inclusion in mortgage amount.

The maximum amount of repair costs that may be added to the sales price is the lesser of:

- The amount by which the value of the property exceeds the sales price;
- The appraiser’s estimate of repairs; or
- The amount of the contractor’s bid.

Scenario 1 Financing Repair Escrow for Purchase		
Sales Price	\$100,000	
Appraised Value	\$102,000	
Repair Estimate for MPR	\$1,500	
Add Repair Estimate to Sales Price to calculate Adjusted Sales Price	$\$1,500 + \$100,000 = \$101,500$	Adjusted Sales Price(must be equal to or less than Appraised Value)
Multiply Adjusted Sales Price with purchase LTV factor of 96.5%	$\$101,500 \times 96.5\% = \$97,947$	Base Loan Amount(cannot exceed FHA’s individual County Loan Amount)
Multiply Base Loan Amount with 1.75% (rounded down to the nearest dollar)	$\$97,947 \times 1.75\% = \$1,714$	Calculate UFMIP
Add UFMIP to Base Loan Amount	Total Loan Amount = \$99,661	Total Loan Amount
The appraised value must be greater than the sales price (in order to accommodate the addition of the repair escrow financed into loan amount)		

(b) Rate and Term Refinance Rate and Term Refinances may include any borrower-paid repairs required by the appraisal in the mortgage amount as long as the maximum LTV limit that is permitted is met. Repairs must be completed prior to closing.

Scenario 2 Financing Repair Escrow for No Cash-out Refinance	
Appraised Value	\$100,000
Total Mortgage payoff and closing costs	
Payoff amount of first mortgage (including a maximum 60 days of interest, maximum 60 days of pro rate FHA MIP (if applicable), late charges, escrow shortages (not delinquent interest))	\$88,000
Payoff Junior Lien (>12 months seasoning)	\$4,000
Closing Costs	\$1,500
Prepaid Expenses	\$2,000
Borrower-paid repairs required by appraiser to meet	\$1,000

FHA MPR standards		
Refund of FHA UFMP (if applicable)	\$0	
Total Mortgage Payoff Plus Associated Costs	\$96,500 (\$88,000+\$4,000+\$1,500+\$2,000+\$1,000)	
Multiply Appraised Value x 97.75%	\$100,000 x 97.75% = \$97,750	Maximum Eligible Base Loan Amount
Lower of maximum Eligible Base Loan Amount or Total Mortgage Payoff plus Associated Costs	Lower of \$97,750 or \$96,500 = \$96,650	Base Loan Amount
Multiply Base Loan Amount with 1.75% (rounded down to nearest dollar)	\$96,500 x 1.75% = \$1,688	UFMIP
Add UFMIP to Base Loan Amount	\$96,500 + \$1,688 = \$98,188	Total Loan Amount

Secondary Financing

Secondary financing must be approved by Underwriting prior to closing.

Secondary financing is any financing other than the first mortgage that creates a lien against the property. Secondary financing that creates a lien against the subject property is not considered a gift or grant.

Secondary financing cannot subject the borrower or the subject property to legal restrictions on conveyance (Free Assumability) in accordance with 24 CFR section 203.41. For example, the secondary financing cannot contain a repayment and recapture clause that may subject borrower to pay off more than initial loan amount or impose other resale restrictions.

(a) Secondary Financing Provided by Governmental Entities and HOPE Grantees A Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an Instrumentality of the Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c) (3) status. HUD deems Section 115 entities to be instrumentalities of government for the purpose of providing secondary financing. Home Ownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the home ownership plan submitted by a borrower for an implementation grant under the HOPE program. A first mortgage on a property that has a second lien made or held by a Governmental Entity is acceptable provided that:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the first mortgage;
- The first Mortgage does not exceed the FHA Nationwide Mortgage Limit where the property is located;
- The secondary financing payments are included in the mortgage payment;
- There is no maximum CLTV for secondary financing loans provided by Governmental Entities or HOPE grantees;
- Any secondary financing of the minimum required investment (MRI) complies with MRI requirements in Chapter 2G Assets, 2G.1 Minimum Down Payment and Cash to Close;
- The secondary financing does not result in cash back to the borrower except for a refund of the earnest money deposit or other borrower costs paid outside of closing; and
- The second lien does not provide for a balloon payment within ten years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- The functions performed are limited to the Governmental Entity's secondary financing program; and
- The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the lender.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved nonprofit. The HUD-approved nonprofit information must be entered into FHAC, as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the borrower's minimum required investment. Any loan of the borrower's MRI must comply with the additional requirements in.

(i) Required Documentation The provider of the secondary financing must furnish the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction;
- Copies of the Mortgage and Note;
- A letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each;
- FHA-insured mortgage, signed by an authorized official and containing the following information:
 - The FHA case number for the first mortgage;
 - The complete property address;
 - The name, address, Tax ID for the nonprofit;
 - The name of the borrower(s) to whom the nonprofit is providing secondary financing. The amount and purpose for the secondary financing;
 - A statement indicating whether the secondary financing:
 - Will close in the name of the Governmental Entity; or
 - Will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved nonprofit, a documented agreement must be provided that:

- The functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the Mortgagee.

Mortgages subject to secondary financing have guidelines for LTV/CLTV ratios, terms, and disclosures of the second mortgage. Refer to our Product Summaries for LTV/CLTV guidelines. Any secondary lien must be subordinate to the Company first mortgage and be recorded as such.

(b) Secondary Financing Provided by HUD-Approved Nonprofits HUD-approved nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA Mortgage insurance, purchase the Department's Real Estate Owned (REO) properties at a discount and provide secondary financing. HUD-approved nonprofits appear on the HUD Nonprofit Roster. A first mortgage on a property that has a second lien made or held by a HUD-approved nonprofit is acceptable provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments must be included in the total mortgage payment;
- The secondary financing must not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing may not be used to meet the borrower's MRI;
- There is no maximum CLTV for secondary financing loans provided by HUD-approved nonprofits; and
- The second lien may not provide for a balloon payment within ten (10) years from the date of execution.

Secondary financing provided by Section 115 Entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees above.

(i) Required Documentation The provider of the secondary financing must provide all of the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

The nonprofit information must be entered into FHAC and the governmental entity, as applicable.

(c) Family Members A second mortgage or lien provided by a family member is acceptable, provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments are included in the total mortgage payment;
- The secondary financing do not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing may be used to meet the borrower's MRI;
- The CLTV does not exceed 100% of the Adjusted Value;
- The second lien does not provide for a balloon payment within ten years from the date of execution;
- Any periodic payments are level and monthly;
- There is no prepayment penalty;
- If the family member providing the secondary financing borrows the funds, the funds may not come from a lending source/entity with an identity of interest in the sale of the property, such as the:
 - Seller
 - Builder
 - Loan originator
 - Real estate agent
- Mortgage companies with retail banking affiliates do not have the affiliate lend the funds to the family member. However, the terms and conditions of the loan to the family member cannot be more favorable than they would be for any other borrowers; and
- If funds loaned by the family member are borrowed from an acceptable source, the borrower may not be a co-obligor on the Note. If the loan from the family member is secured by the subject property, only the family member provider may be the Note holder. The secondary financing provided by the family member is not transferred to another entity at or subsequent to closing.

The provider of the secondary financing must furnish all of the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

If the secondary financing funds are being borrowed by the family member and documentation from the bank or other savings account is not available, the family member must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Company.

(d) Private Individuals and Other Organizations Private individuals and other organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this section. The Company does not provide secondary financing. A second mortgage or lien provided by private individuals and other organizations is acceptable, provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments are included in the total mortgage payment;
- The secondary financing does not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing is not used to meet the borrower's MRI;
- The CLTV does not exceed 100% of the applicable FHA LTV limit;
- The base loan amount and secondary financing amount does not exceed the FHA Nationwide Mortgage Limits;

- The second lien does not provide for a balloon payment within ten years from the date of execution;
- Any periodic payments are level and monthly; and
- There is no prepayment penalty, after giving the mortgagee 30 days advance notice.

The provider of the secondary financing must provide the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments.

Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax is collected by the local government rather than paid directly by the borrower to the party providing the PACE financing and is also secured in the same manner as a special assessment tax against the property.

In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished. As a result, loans encumbered with PACE or PACE-like obligations are not eligible for FHA financing.

(a) Purchase Transactions The sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing. The FHA roster appraiser must be informed that the PACE obligation will be paid off as a condition of loan approval. The appraiser must report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

(b) Refinance Transactions The outstanding PACE obligation may be included as existing debt to be paid off as part of FHA rate and term refinance transaction. The outstanding PACE obligation may be paid off as part of a cash-out refinance transaction.

See Chapter 2J FHA Appraisal Requirements, 2J.13 Property Assessed Clean Energy (PACE) for appraisal requirements when a PACE or PACE-like loan exists.

Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

- Purchase: Permitted if the premium pricing credit exceeds the closing costs up to the lesser of 2% of the loan amount or \$2,500
- Refinance: Permitted up to \$500 on FHA refinance transactions.

Escrow Waivers

Not permitted

Mortgage Insurance Premiums (MIP)

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium.

(a) Upfront Mortgage Insurance Premium The UFMIP is not considered when calculating the area based Nationwide Mortgage Limits and LTV limits. UFMIP must be entirely financed into the loan amount or paid entirely in cash. The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured mortgage. See our FHA Refinance Product Profiles.

(b) Annual (or Periodic) Mortgage Insurance Premium The periodic MIP is an annual MIP that is paid monthly. The amount of the annual MIP is based on the LTV, base loan amount and the loan term. An annual premium is paid in the monthly mortgage payment with the principal, interest, taxes, and insurance. For loan qualification, monthly MIP is calculated by multiplying the base loan amount (without financed UFMIP) by the premium factor rate shown on the Upfront and Annual MIP Chart divided by 12.

Duration of Annual MIP	
LTV	New
≤ 90%	11 years
> 90%	Loan term

Mortgage Insurance Premiums						
LTV/Loan Term	All loan amounts Existing FHA Mortgage Endorsed on or Before May 31, 2009		Case Numbers Assigned on or After January 26, 2015			
	UFMIP	Monthly	Base Loan Amount ≤ \$625,500		Base Loan Amount > \$625,500	
			UFMIP	Monthly	UFMIP	Monthly
> 95% LTV > 15 years	.01%	55 bps	1.75%	85 bps	1.75%	105 bps
≤ 95% LTV > 15 years				80 bps		100 bps
> 90% LTV ≤ 15 years				70 bps		95 bps

> 78% & ≤ 90% LTV ≤ 15 years			45 bps		70 bps
≤ 78% LTV ≤ 15 years					45 bps
Duration of Annual MIP based upon amortization term and LTV ratio at origination					
LTV ≤ 90% 11 years					
LTV > 90% loan term					

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Property Types

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Eligible Property Types

(a) Single-Family Residence A detached, semi-detached, or attached single-family dwelling, including town homes and row homes, or a single dwelling unit and a single accessory dwelling unit (ADU).

(b) Modular Home A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two (2) or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems. Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.

(c) Two-Unit Property A two-unit property is a property with two (2) individual dwelling units.

(d) Three- to Four-Unit Property A three- to four-unit property is either:

- A residential property with three (3) or four (4) individual dwelling units;
- A residential property with two (2) individual dwelling units and one (1) ADU; or
- A residential property with three (3) dwelling units and one (1) ADU.

(e) Hotel and Transient Use Certifications (HUD-92561) The borrower's agreement that the property will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 days must be obtained. The Borrower's Contract with Respect to Hotel and Transient Use of Property (form HUD-92561), must be signed by the borrower for each loan secured by:

- A one (1)-unit dwelling with an ADU;
- A two-to four-unit dwelling; or
- A single-family dwelling that is one (1) of a group of five or more dwellings owned by the borrower within a two (2) block radius.

(f) Condominium A condo is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. A condo project is created according to local and state statutes. The structure is two (2) or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners. A condominium project must be FHA approved before a mortgage on an individual condominium unit can be insured. The FHA Condominium List includes condominiums that have been approved, pending, rejected, and withdrawn.

(i) Condominium Requirements Comply with all of the following:

- Units in an FHA-approved condominium project do not require any further approval process. However, as part of loan-level review, the Company must certify on the "Lender Certification for Individual Condominium Unit Financing" that:
- The Company has no knowledge of circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent, including but not limited to:
 - Defects in construction.
 - Substantial disputes or dissatisfaction among unit owners about the operation of the project or the owner's association.
 - Disputes concerning unit owners, rights privileges, and obligations);
- The Company has reviewed and verified the condominium project's continued compliance with the initial approval requirements regarding:
 - Investor ownership.
 - Percentage of owners in arrears for condominium association fees.
 - Owner-occupancy rate.
 - FHA loan concentration rate.
- The Company certifies that the condominium project continues to comply with FHA requirements.
- The "Lender Certification for Individual Condominium Unit Financing" form must be signed by the underwriter.
- A completed Condominium Questionnaire or its equivalent is required.
- Approvals expire two (2) years from the date the project was placed on the list of approved condominiums. Once the two (2)-year period has expired, a recertification is required to determine that the project is still in compliance with HUD's owner-occupancy requirements and that no conditions currently exist which would present an unacceptable risk. Items that must be considered include any pending special assessments, any pending legal action against the condominium association or its officers or directors, and insurance, which includes hazard, liability, and, if applicable,

flood.

- The Condo ID must be entered into FHA Connection.
- The “Appraisal and Property” screen within H2O must show the property as an FHA approved condominium.
- If the project is no longer approved or does not meet the approval criteria, then only an FHA to FHA streamline refinance without an appraisal is allowed.

(ii) Required for all Condominium Projects The following is required for all condo projects unless otherwise stated:

- Minimum number of units: Projects must consist of two or more units.
- Insurance Coverage: Projects must be covered by hazard and liability insurance and, when applicable, flood and fidelity insurance (see Insurance Requirements section below).
- Right of First Refusal: Right of first refusal is permitted unless it violates discriminatory conduct under the Fair Housing Act regulation at 24 CFR part 100.
- Commercial Space: No more than 25% of the property’s total floor area in a project can be used for commercial purposes. The commercial portion of the project must be of a nature that is homogenous with residential use, which is free of adverse conditions to the occupants of the individual condominium units.
- Investor Ownership: No more than 10% of the units may be owned by one investor. This limitation also applies to developers/builders that subsequently rent vacant and unsold units. For condominium projects with ten or fewer units, no single entity may own more than one unit within the project; all units, common elements, and facilities within the project must be 100% complete.
- Delinquent HOA Dues: No more than 15% of the total units can be in arrears (more than 30 days past due) of their condominium association fee payments.
- Pre-Sales: At least 50% of the total units must be sold to owner occupants and secondary residence purchasers prior to endorsement of a mortgage on any unit, except for new construction, which requires 30% pre-sale. Secondary residence means a dwelling where the mortgagor maintains or will maintain a part-time place of abode and typically spends or will spend less than a majority of the calendar year, which is not a vacation home, and which the Commissioner has determined to be eligible for insurance in order to avoid undue hardship to the mortgagor. A person may have only one secondary residence at a time. Valid presales include:
 - Copies of sales agreements and evidence that a mortgagee is willing to make the loan.
 - Evidence that units have closed and are occupied, OR
 - Information from a developer/builder that lists all of the units already sold, under contract, or closed (e.g. a spreadsheet, chart, or listing used for the company’s own tracking purposes) that is accompanied by a signed certification from the developer.
- Owner-Occupancy Ratios: At least 35% of the units of a project must be owner-occupied or sold to owners who intend to occupy the units. For proposed, under construction or projects still in their initial marketing phase, FHA will allow a minimum owner occupancy to amount equal to 30% of the number of presold units. Vacant or tenant occupied real estate owned (REO’s), including properties that are bank owned, may be excluded from the calculation of the required owner-occupancy percentage. They should be removed from both the numerator and denominator. For purposes of calculating the owner-occupancy percentage and FHA concentration on multi-phased projects the owner-occupancy percentage is calculated on the first declared phase and cumulatively on subsequent phases if the ownership of the condominium project remains the same. If multi-phasing includes separate ownership per phase, each phase is calculated individually. In single-phase condominium project approval requests, all units are used in the denominator when calculating the 35% owner-occupancy percentage.
 - Conditions to Lower Owner Occupancy Percentage for Existing to as low as 35%. Existing projects (greater than 12 months old) with an owner occupancy percentage of at least 35% and less than 50% are eligible for approval under the following circumstances and subject to the following conditions:
 - Applications must be submitted for processing and review under the HUD Review and Approval Process (HRAP) option.
 - Financial documents must provide for funding for replacement reserves for capital expenditures and deferred maintenance in an account representing at least 20% of the budget; and
 - No more than 10% of the total units can be in arrears (more than 60 days past due) on their condominium association fee payments and
 - Three (3) years of acceptable financial documents must be provided.
 - Documentation: The owner-occupancy percentage must be documented as follows:
 - Copies of sales agreements and evidence (loan commitment) that a mortgagee is willing to make the loan; or
 - Evidence that units have closed that are or will be occupied by the owner (e.g. a spreadsheet, chart. Or listing used for the company’s own tracking purposes) that is accompanied by a signed certification from the developer.
- Legal Phasing: Legal phasing is permitted for condominium processing. It is recommended that developers submit all known phases for initial project approval. FHA will not accept market phasing in lieu of legal phasing. For vertical buildings, legal phasing is acceptable if the floors are legally phased in groupings of no less than five floors, at least a temporary certificate of occupancy has been obtained and all common areas and amenities have been completed, and a third party completion bond has been obtained.
- FHA Concentration. FHA will display the concentration information for each approved condominium development on the approved condominium listing, which can be found at <https://entp.hud.gov/idapp/html/condlook.cfm>. The concentration level will be based on case numbers assigned on units in a project. FHA will not issue new case numbers once the 50% concentration level (100% concentration will be permitted in some cases) has been reached in any particular development. Projects consisting of three or fewer units will have no more than one unit encumbered with FHA insurance. Projects consisting of four or more units will have no more than 50% of the total units encumbered with FHA insurance. Calculation of the level of FHA concentration in a project declared with legal phases will follow the same methodology as owner-occupancy, described above.
- Budget: The budget must be adequate and include allocations/line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condominium project; provide for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; and provide adequate funding for insurance coverage and deductibles (see Insurance Requirements section below). In cases where the budget documents do not meet these standards, a reserve study may be used to assess the financial stability of the project. The reserve study cannot be more than 12 months old. Consideration must be given to items that have been replaced after the time that the reserve study was completed. In lieu of the actual budget documents, Fannie Mae form 1073a, Analysis of Annual Income and Expenses – Operating Budget, executed by an authorized representative of the seller/servicer, owners’ association, or management agent may be used.

- Condominium Conversions: Conversion to condominiums occurs in those projects which involve changing the title of an existing structure generally under one title, to property that is separated into units so that the title to most units can be held separately. In the event that FHA is insuring a mortgage on a unit and an undivided interest in the common elements on a project undergoing remodeling or rehabilitation, the entire condominium project, including the common facilities, must be 100% completely built before any mortgage may be endorsed. Escrow provisions will be permitted for weather related delays for common areas only. Conversions of properties from non-residential or from rental, whether tenant-occupied or vacant, will be treated as new construction.

(iii) Site Condominiums Project approval may not be required for site condo if the following is met:

- Single family totally detached dwellings encumbered by a declaration of condominium covenants or condo form of ownership;
- The unit has no shared garages or any other attached building or structure connecting the buildings (e.g., archways, breezeways, etc.);
- The condo unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas.
- Must be identified in H2O as a “detached condominium”.

(iv) HUD Review and Approval Process (HRAP)

- Refer to FHA Condominium Requirements.
- Note that all Florida condominium projects must be approved under this process. They are not eligible for DELRAP.

(v) Spot Loan Approval in a Condominium Project Not permitted.

(vi) Direct Endorsement Lender Review and Approval Process (DELRAP) Refer to FHA Condominium Requirements.

(vii) Ineligible Condominiums

- Condotels;
- Timeshares;
- Houseboat projects;
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage;
- Any project for which the owner’s association is named a party to current litigation or for a project that has not been turned over to the association for which the project sponsor or developer is named a party to current litigation;
- Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction;
- Investment Securities – A project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission;
- Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building; and
- A project with non-incident business operations owned or operated by the owners’ association such as, but not limited to, a restaurant, spa, health club, etc.

(g) Planned Unit Development (PUD) A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the HOA must be automatic and non-severable;
- The payment of assessments related to the unit must be mandatory;
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners; and
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects

- Have no common property and improvements;
- Do not require the establishment of and membership in an HOA; and
- Do not require payment of assessments.

(h) Accessory Dwelling Unit An accessory dwelling unit refers to a habitable living unit added to, created within, or detached from a primary single-family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities and meeting the following:

- The property is a 1-unit
- The ADU is usually subordinate in size, location, and appearance to the primary dwelling unit;
- There is only one (1) ADU on the property; multiple ADUs are not permitted;
- The ADU has the following separate features from the primary dwelling:
 - Means of ingress/egress
 - Kitchen
 - Sleeping area
 - Bathroom facilities
- Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling.

Refer to 2J Appraisal Requirements, 2J.8(h)(iv) Accessory Dwelling Units for appraisal requirements.

(i) Manufactured Housing A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

Definitions

Anchorage	Connection between superstructure and foundation, by means of welds, bolts, and various high light gage metal plates. Anchorage does not refer to any type of soil anchor.
Exterior Foundation Wall	Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as: bearing walls under gravity loads and/or shear walls under horizontal loads. If these walls are not used structurally, they are called non-bearing walls or skirt walls.
HUD Construction Code (Certification Label)	The HUD Certification Label is a metal plate that is affixed to the exterior of each transportable section of the manufactured home. The HUD Certification Number appears on each HUD Certification Label and evidence compliance with the Federal Manufactured Home Construction and Safety Standards.
HUD Data Plate/Compliance Certificate (Data Plate)	The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. The data plate also includes pertinent information about the unit, including a list of factory -installed equipment. Label numbers are not required to be sequential on a multi-section house.
Relocation of Manufactured Home	Moving the manufactured home unit previously installed or occupied to any other site or location is prohibited.
Skirting	A term used to describe a non -structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal, attached to the side of the structure, extending to the ground (not installed below frost depth).

(i) Manufactured Housing Eligibility Manufactured homes must meet all of the following eligibility requirements:

- Must be a single-family dwelling;
- Must be a minimum of 400 square feet gross living area;
- Must have an affixed HUD Certification label, located on the outside of the home, or have a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards (MHCSS). Manufactured homes built prior to June 15, 1976, are ineligible:
 - If the home is a multi-wide unit, each unit must have a seal;
 - If the HUD tag is missing, a recent "HUD Certification Verification" letter issued by the Institute for Building Technology and Safety (IBTS) must be in the loan file.
- The manufactured home and site exist together as real estate in accordance with state law;
- The manufactured home must be classified as real property as evidenced through tax certificates or title policy to validate that both land and manufactured home unit is deeded as one (1);
- Must be built on and remain on a permanent chassis with towing hitch and running gear removed;
- Must be permanently affixed to the foundation in accordance with the Permanent Foundations Guide for Manufactured Housing, (PFGMH) as certified by an engineer or architect who is licensed or registered in the state whether the manufactured home is located.
 - A copy of the foundation certification from a previous FHA-insured mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification may be obtained provided there are no alterations and/or observable damage to the foundation since the original certification.
- Must have been transported from the factory or dealer directly to the site;
- Finished grade elevation beneath the manufactured home, or if a basement is used, the grade beneath the basement floor is at or above the 100-year return frequency flood elevation;
- Appraiser must report the information on the data plate within the appraisal, including the manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps; and
 - If the data plate is missing or the appraiser is unable to locate it, the appraiser must report this in the appraisal report and is not required to obtain the data plate information from another source.
- New construction must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

Refer to Chapter 2J FHA Appraisal Requirements, 2J.12 Manufactured Housing appraisal requirements.

Refer to 2B.6(c) Manufactured Home (By Construction Status at Time of Appraisal) Inspection Requirements for Maximum Financing for New Construction.

(ii) Titling the Manufactured Home as Real Property All manufactured home units and land must be classified as real property and taxes as such by the local authority.

- The property description section (or rider) of the security instrument must include a description of the manufactured home, including the VIN or serial number, and the land; and
- ALTA 7.1 or other state specific equivalent Title Endorsement is required for the final title insurance policy.

When the land is purchased separately from the unit, there may be two (2) deeds:

- A property deed for the land; and
- A chattel deed or motor vehicle title for the unit.

The land and unit must be deeded as one (1) and the title policy must specifically state and validate that the manufactured home and land are classified as real estate and taxed as one (1) parcel.

Evidence that motor vehicle title has been (or will be) purged or surrendered is required. The Closing agent (or title company) to confirm actions taken to assure that the manufactured home has been permanently affixed to the land and that the lien is recorded.

The loan is not eligible if the original chattel deed or motor vehicle title is not purged, and the property does not have clear marketable real estate title.

(iii) Modifications to the Manufactured Home Room additions, attached carports, or other structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction and Safety Standards (MHCSS) and local and state code. If the appraiser observes additions or structural changes to the original manufactured home, one (1) of the following must be obtained:

- An inspection by the state or local jurisdiction administrative agency that inspects manufactured homes for compliance; or
- Certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

(iv) Perimeter Enclosure The space beneath manufactured homes must be properly enclosed and therefore must:

- Be a continuous wall (whether bearing or non-load bearing);
- Be secured to the perimeter of the unit; and
- Allow for proper ventilation of the crawl space.

If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood, or a product with similar strength and durability.

(v) Flood Zones The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the property improvement is located within a FEMA designated Special Flood Hazard Area (Zones A or V), the property is only eligible with one (1) of the following:

- A FEMA-issued Letter of Map Amendment (LOMA) that removes the property from the SFHA or A FEMA-issued Letter of Map Revision (LOMR) that removes the property from the SFHA; or
- A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) 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, and insurance under the NFIP is obtained.

(vi) Ineligible for Manufactured Homes The following are ineligible manufactured housing property types:

- A manufactured home that is not titled as real estate;
- A manufactured home that is not permanently affixed;
- A manufactured home that was installed or occupied previously at any other site or location. The home may only have moved from the manufacturer's or dealer's lot to the current site of the home;
- A manufactured home located in a mobile home park;
- A manufactured home with a manufactured home ADU or storage unit;
- A manufactured home with deed restrictions; and
- FHA HUD REO \$100 Down.

(j) Mixed-Use Property Mixed-use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space. A mixed-use property is a 1- to 4-unit properties are eligible provided:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

Refer to Chapter 2J, FHA Appraisal Requirements, 2J.8(e) Legal and Land Use Considerations for additional guidance.

(k) Properties with Leased Equipment A property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible provided they do not cause a conveyance (ownership transfer) of the property by the borrower:

- To be void, or voidable by a third party;
- To be the basis of contractual liability of the borrower (including rights of first refusal, pre-emptive rights or portions related to a borrower's efforts to convey);
- To be subject to the consent of a third party;
- To be subject to limits on the sales proceeds a borrower can retain (e.g., due to a lien, "due on sale" clause, etc.) To be rounds for accelerating the mortgage; and
- To be grounds for increasing the interest rate of the mortgage.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the real property or restricting the transfer of the real property.

Legal restrictions on conveyance of real property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the real property, unless such provision may be terminated at the option of, and with no cost, to the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the subject property is not eligible.

(l) Deed/Resale Restriction The regulations in Section 24 CFR 203.41 state that properties with FHA-insured mortgages shall be free of restrictions that prevent the borrower from freely transferring the property. The regulations use the term "legal restrictions on conveyance" to describe such restrictions and this term is broadly defined to include provisions in any kind of legal instrument that would cause a conveyance (including a lease) by the borrower to:

- Be void, or voidable by a third party;
- Be the basis of contractual liability of the borrower;
- Terminate, or subject to termination, the borrower's interest in the property;
- Be subject to the consent of a third party;

- Be grounds for accelerating the insured mortgage; and
- Be grounds for increasing the interest rate of the insured mortgage.

If the conveyance could cause any of these things to occur, the property is considered to be subject to legal restrictions on conveyance and is usually ineligible for FHA mortgage insurance. In these instances, the loan should be escalated to a Team Lead for further review and HOC may be contacted. The resale restriction controls must be administered by the subsidy provider or a program administrator.

Ineligible Property Types

The following property types or characteristics are ineligible:

- Assisted living projects
- Bed and breakfast properties
- Boarding houses
- Builder model leaseback (purchase transactions)
- Commercial properties
- Condo hotels
- Cooperative units
- Fraternity or sorority houses
- Houseboats
- Indian/Tribal lands
- Industrial properties
- Investment securities
- Land-lease communities
- Manufactured home with an accessory dwelling unit (ADU) or guest house or any other dwelling type
- Mobile home
- Multi-family dwelling containing more than four (4) units
- Non-warrantable condos
- Other transient housing
- Private clubs
- Properties encumbered with private transfer fees
- Properties located in Airport Runway Clear Zones
- Properties located in Lava Zones 1 and 2
- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties not suitable for year-round occupancy
- Properties with individual water purification systems
- Properties with a C5 or C6 Condition Rating
- Properties without full utilities installed to meet all local health and safety standards
- Tax-sheltered syndicate
- Timeshare unit/project
- Tiny houses
- Unimproved or vacant land
- Unique properties (e.g., 3D printed house, barndominium, container homes, shouse, tiny houses)
- Working farm, ranch, or orchard

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Underwriting (1/9/2023)

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Overview

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Company overlays will be highlighted in yellow.

The integrity of all data elements entered into the AUS must be verified to ensure the outcome of the mortgage credit risk evaluation is valid.

For approved loans using the TOTAL Findings Report, comply with all of the Verification Messages/Approval Conditions listed in the Underwriting Findings report and document the loan file accordingly. Due diligence must be applied when reviewing the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by TOTAL. Any underwriting overlays would apply. Refer to the applicable Underwriting Guide chapter, our Product Summaries, and Overlay Matrix for underwriting overlays.

FHA will release new versions of TOTAL. FHA will announce the date that the new version will be available. All mortgages being scored for the first time will be scored using the new version. For mortgages with a case number, the mortgage will be scored using the version that was effective when the case number was assigned. Existing mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All mortgages without a case number will be scored using the new version 90 days after the new version is implemented.

Maximum Number of Borrowers

Desktop Underwriter (DU)	There may be no more than four (4) borrowers on a transaction and submitted to DU. Any loan with more than four (4) borrowers is not eligible for a manual underwrite. Downgrade terms for manual underwrite is shown in Section 2E.2(a) Downgrade to Manual Underwriting.
Loan Product Advisor (LPA)	There may be no more than five (5) borrowers on a transaction and submitted to LPA. Any loan with more than four borrowers must be manually underwritten. Downgrade terms for manual underwrite is shown in Section 2E.2(a) Downgrade to Manual Underwriting.

(a) Feedback Certificates: Risk Classifications

(i) TOTAL Risk Classifications

Decision	Description
Accept/Eligible	An Accept/Eligible recommendation indicates that the loan may be eligible provided the data entered into the AUS is accurate and complete and the mortgage application complies with all FHA requirements. Verify that all supporting documentation and information entered into TOTAL is consistent with the final underwriting decision.
Accept/Ineligible	An Accept/Ineligible recommendation indicates the borrower's credit and capacity would meet the threshold for approval, but the loan does not fully comply with FHA's eligibility requirements. The Feedback Certificate will identify the specific eligibility requirements that the loan does not meet. Analyze the Feedback Certificate and determine if the reason for ineligibility is one (1) that can be resolved in a manner that complies with FHA underwriting requirements. If the reason for ineligibility can be corrected, the loan may be rescored in the AUS. When the reasons for ineligibility cannot be corrected in the AUS, the loan may be underwritten following the requirements for an Accept but must resolve the reason for ineligibility and must provide an explanation of the resolution in the remarks section of form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary.
Refer	Any loan receiving a Refer recommendation must be downgraded and manually underwritten.
Downgrade to Manual Underwriting	The loan must be downgraded and manually underwritten for any loan receiving an Accept recommendation if any of the following exist: <ul style="list-style-type: none"> • The loan file contains information or documentation that cannot be entered into or evaluated by TOTAL; • Additional information, not considered in the AUS recommendation affects the overall insurability of the loan; • The borrower has \$1000 or more collectively in disputed derogatory credit accounts. The following may be excluded with supporting documentation, as applicable: <ul style="list-style-type: none"> ◦ Disputed medical accounts; ◦ Disputed derogatory accounts resulting from identity theft, credit card theft, or unauthorized use; ◦ Documentation to support these claims must be provided, such as a police report; ◦ Disputed derogatory accounts of a non-borrowing spouse in a community property state; and ◦ Non-derogatory disputed accounts. • The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two (2) years from the date of case number assignment; • The case number assignment date is within three (3) years of the date of the transfer of title through a pre-foreclosure sale (short sale); • The case number assignment date is within three (3) years of the date of the transfer of title through a deed-in-lieu (DIL) of foreclosure; and • Mortgage Payment History for any mortgage trade line reported on the credit report, during the most recent 12 months, that reflects: <ul style="list-style-type: none"> ◦ Purchase and No Cash-out Refinance <ul style="list-style-type: none"> ▪ 3x30; or ▪ 1x60 and 1x30; or ▪ 1x90; or ▪ That the borrower has made less than three (3) consecutive payment since completion of a mortgage forbearance plan. ◦ Cash-out Refinance: any current delinquency or 1x30 in the last 12 months of the case assignment date or the borrower has made fewer than 12 consecutive monthly payments since completion of a forbearance plan. • The borrower has an undisclosed mortgage debt, and the borrower's mortgage payment history reflects: <ul style="list-style-type: none"> ◦ A current delinquency; ◦ Any delinquency in the last 12 months of the case number assignment date; and ◦ More than 2x30 day late payments in the last 24 months of the case number assignment date. • Business income shows a greater than 20% decline over the analysis period.

(b) TOTAL Resubmission Tolerance Levels for Rescoring The data submitted to TOTAL must reflect the loan as it was closed, including occupancy type,

product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. Verification documents must be reviewed, and the verified values compared to the data submitted to automated underwriting. The terms of the closed loan must match the terms of the final loan submission. The data utilized by the system must be supported by source documentation. Inaccurate or unverified data will result in invalidation of the recommendation. Under certain circumstances, it could also result in a finding of material misrepresentation. Loans must be rescored when any data element of the loan changes and new borrower information becomes available. The loan does not require rescoring if the following data elements from the last scoring event are within the tolerance levels in the table below.

When assessing...	Resubmission is not required if:
Cash Reserves	Cash reserves are not less than 10% below the previously scored amount.
Income	Income verified is not less than 5% below the previously scored amount.
Tax and Insurance Escrows	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income Ratio (PTI).

(i) Inaccuracy of Debt When an inaccuracy in the amount or type of debt or obligation is revealed and the correct information was not considered by the AUS, the following must be done:

- Verify the actual monthly payment amount;
- Resubmit the loan if the cumulative change in the amount of the liabilities increases by more than \$100 per month; and
- Determine that the additional debt was not or will not be used for the borrower's minimum required investment.

(c) Final Underwriting Decisions A mortgage may be approved and eligible when:

- TOTAL rated the mortgage as Accept;
- The underwriter underwrote the appraisal according to FHA requirements;
- TOTAL findings were reviewed and verified that all information entered into TOTAL is consistent with the loan file documentation, and is true, complete, and accurate; and
- All FHA requirements are met in accordance with an Accept from TOTAL.

While TOTAL is available for pre-qualification, the mortgage must be scored at least once after assignment of an FHA case number. FHA will not recognize the risk assessment, nor will information be carried from TOTAL to FHAC for endorsement processing without a case number assignment.

(d) Documentation of Final Underwriting Review Decision The following documents must be completed to evidence the final underwriting decision.

Form HUD-92900-LT, Loan Underwriting and Transmittal Summary	<p>The underwriter must:</p> <ul style="list-style-type: none"> • Indicate the CHUMS ID of the underwriter who reviewed the appraisal; • Complete the Risk Assessment; and • Enter the identification of "ZFHA" in the CHUMS ID. <p>When the Feedback Certificate indicates "Accept/Ineligible," the loan file must be documented with the circumstances or other reasons that were evaluated in making the decision to approve the mortgage in the Remarks section.</p>
Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value	The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.
Form HUD-92900-A HUD/VA Addendum to Uniform Residential Loan Application	<p>The underwriter must complete form HUD-92900-A as directed in the form instructions.</p> <p>An authorized officer of the lender, the borrower and the underwriter must execute form HUD-92900-A as indicated in the instructions.</p>

Manual Underwriting

Loans receiving an AUS Approve/Accept requiring a manual downgrade or an AUS Refer may be manually underwritten per FHA guidelines.

If the loan must be downgraded to manual underwriting, AUS may no longer be used and all requirement for manual underwriting must be complied with.

(a) Documentation of Final Underwriting Review Decision

Form HUD-92900-LT, Loan Underwriting and Transmittal Summary	<p>The underwriter must record the following on form HUD-92900-LT:</p> <ul style="list-style-type: none"> • Their decision; • Any compensating factors; • Any modification of the mortgage amount and approval conditions under "Underwriter Comments,;" and • DE CHUMS Underwriter ID and signature.
Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value	The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.
Form HUD-92900-A HUD/VA Addendum to Uniform Residential Loan Application	<p>The underwriter must complete form HUD-92900-A as directed in the form instructions.</p> <p>An authorized officer of the lender, the borrower and the underwriter must execute form HUD-92900-A as indicated in the instructions.</p>

HUD Employee Mortgages

If the borrower is a HUD employee, the underwriter must condition the loan on its approval of the mortgage by HUD. The case binder must be submitted to Processing and Underwriting Division Director and the Jurisdictional HOC for final underwriting approval.

Notification of Borrower of Approval and Term of the Approval

The borrower must be notified of their approval in a timely manner. The underwriter's approval or Firm Commitment is valued for the greater of 90 days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- The underwriter's approval date of the property indicated as Action Date on form HUD-92800.5B.

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Credit

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Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

(a) Non-Borrowing Spouse A credit report must be obtained 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 provide one (1) of the following:

- Separate documentation indicating that the SSN was matched with the SSA; or
- A statement that the non-borrowing spouse does not have an SSN. 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 (2) years.

A credit report is not required for a Non-credit Qualifying Streamline Refinance.

Credit Report Standards

The loan file must contain one (1) of the following types of credit reports for each borrower:

- A merged in-file report including, credit scores, from three (3) different credit repositories; or two (2) if repositories, if that is the extent of the information available. If information from only one (1) credit repository is available, it is acceptable if there is a credit score, and information was requested from all three (3) repositories. If a merged in-file report is upgraded to a Residential Mortgage Credit Report (RMCR), the original merged in-file report must remain in the file; or
- A full Tri-Merged Credit Report (TRMCR) must be obtained from an independent consumer reporting agency.

When a new or retyped credit report is provided, all prior credit reports must be included in the loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the loan file.

(a) Credit Report Red Flags When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

(b) Frozen Credit Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and must be rescored through TOTAL or be re-underwritten. If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.

(c) Updated Credit Report or Supplement to the Credit Report A new credit report must be obtained if the underwriter identifies inconsistencies between

any information in the loan file and the original credit report and rescored through TOTAL or be re-underwritten.

Credit Scores

(a) Credit Scores A credit score represents a comprehensive view of a borrower’s credit history risk factors, and are required for all borrowers, per our Product Profiles. The higher the score the lower the risk of default. The score in combination with the dates and severity of late payments should be considered.

Selection and Validation of Credit Scores

Selecting the credit score for loan qualification is a two-step process.

- Select the credit score for each individual borrower; and
- Select the credit score used for loan qualification.

(a) Selection Select the credit score for each borrower. Use the lowest selected credit score among all borrowers for loan qualification. All borrowers must have a credit score.

Number of Scores	Score
3	Middle Score
2	Lower of the two
1	Use score

(b) Authorized User Account When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner. Authorized user accounts are not valid trade lines for establishing the borrower’s credit history.

Nontraditional Credit

For borrowers without a credit score, a Nontraditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the borrower’s credit history.

(a) Nontraditional Mortgage Credit Report (NTMCR) A NTMCR refers to a type of credit report designed to access the credit history of a borrower who does not have the types of trade references that appear on a traditional credit report. An NTMCR is used either as:

- A substitute for a TRMCR or an RMCR; or
- A supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

A NTMCR developed by a credit reporting agency may be used if it verifies the following information for all non-traditional credit references:

- The existence of the credit providers;
- That the credit was actually extended to the borrower; and
- The creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as “satisfactory” or “acceptable,” must be formatted in a similar fashion to traditional references and provide the:

- Creditor’s name;
- Date of opening;
- High credit;
- Current status of the account;
- 12-month history of the account;
- Required monthly payment;
- Unpaid balance; and
- Payment history in the delinquency categories (e.g., 0x30 and 0x60).

(b) Independent Verification of Nontraditional Credit Providers The borrower’s credit references may be independently verified by documenting the existence of the credit provider and that the provider extended credit to the borrower.

1. To verify the existence of each credit provider, review public records from the state, county, or city or other documents providing a similar level of objective information.

2. To verify credit information:

- Use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- Obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.

3. To verify the borrower’s rental payment history, obtain a rental reference from the appropriate rental management company, provided the borrower is not renting from a family member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(c) Sufficiency of Credit References The borrower’s credit history must include three (3) credit references. At least one (1), if not all credit references should be from Group 1. If all three (3) cannot be obtained from Group 1, the unreported recurring debt may be obtained from Group 2.

Group Number	Credit Reference
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Group 1	<ul style="list-style-type: none"> • Rental housing payments (subject to independent verification if the borrower is a renter); • Telephone service; or • Utility company reference (if not included in the rental housing payment), including: <ul style="list-style-type: none"> ◦ gas ◦ electricity ◦ water ◦ television service ◦ internet service
Group 2	<p>If all three (3) credit references cannot be obtained from the list above, use the following sources of unreported recurring debt:</p> <ul style="list-style-type: none"> • Insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance); • Payment to child care providers; • School tuition; • Retail store credit cards (e.g., department, furniture, appliance stores, or specialty stores); • Rent-to-own (e.g., furniture, appliances); • Payment of that part of medical bills not covered by insurance; • A documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that: <ul style="list-style-type: none"> ◦ Were made at least quarterly; ◦ Were not payroll deducted; and • Caused no insufficient funds (NSF) checks. • An automobile lease; • A personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or • A documented 12-month history of payment by the borrower on an account for which the borrower is an authorized user.

Inquiries and Undisclosed Liabilities

A written explanation for all inquiries shown on the credit report that were made in the last 90 days is required.

All debt incurred during the application process and through loan closing of the mortgage must be disclosed on the final application and included in the loan qualification.

Review the credit report for any inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are included in the DTI ratio. Determine that any recent debts were not incurred to obtain any part of the borrower's required funds to close. If additional credit was applied for and approved or obtained, a verification of that debt must be provided and included in the borrower's monthly obligations.

Material inquiries refer to inquiries which may potentially result in obligations incurred by the borrower for other mortgages, auto loans, leases, or other installment loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

(a) **Undisclosed Debt Monitoring** The Company follows the Undisclosed Debt Monitoring (UDM) process to ensure loans are funded and sold within the DTI ratio guidelines in which they were approved. All loans where a credit report has been pulled are monitored and/or validated to ensure any new tradelines or inquiries do not negatively impact the approval of the loan. Refer to the Undisclosed Debt Monitoring (UDM) Process in the Cross Team Processes for procedures.

(b) **Undisclosed Debt Other than a Mortgage** If undisclosed or inaccurate debt (other than a mortgage) has been revealed, comply with all of the following:

- Verify the actual or new monthly payment;
- Include the monthly payment amount and resubmit the loan to TOTAL if the cumulative change in liability is greater than \$100; and
- Determine that the additional debt will not be used to meet the borrower's minimum required investment.

(c) **Undisclosed Mortgage Debt** When an existing debt or obligation that is secured by a mortgage and is not listed on the credit report and not considered by TOTAL is revealed during the application process, one (1) of the following must be obtained reflecting an acceptable mortgage payment history:

- A copy of the Note and either a bank statement or cancelled checks;
- A credit supplement; or
- Verification of mortgage.

The loan must be downgraded and manually underwritten if the mortgage history reflects any of the following:

- A current delinquency;
- Any delinquency within 12 months of the case number assignment date; or
- More than 2x30 day late payments within 24 months of the case number assignment date.

A mortgage that has been modified must use the payment history in accordance with the modification agreement for the time period of modification in determining the late mortgage payments.

Housing Payment History

On the date of the loan application, all existing mortgages must be current, meaning that no more than 30 days may have elapsed since the last paid installment date and the rating covers a 12-month period. If these requirements are not satisfied, the mortgage rating must be updated through with a VOM, cancelled checks, or a payoff statement. Obtain the current balance, current status, monthly payment amount, and payment history for the most recent 12-months.

Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt. Mobile homes and manufactured homes reported as an installment loan must be considered as a housing payment and reviewed as such.

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. Standard payment history requirements apply. There are no specific seasoning requirements for a modified mortgage.

A mortgage payment is considered current if it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

(a) Positive Rental Payment History using TOTAL Mortgage Scorecard Positive Rental Payment History refers to the on time payment of all rental payments in the past 12 months. TOTAL will use the positive rental payment history in the credit risk assessment. A loan may be submitted to TOTAL indicating a Positive Rental Payment History for the following:

- Purchase transaction;
- At least one (1) borrower is a first-time homebuyer;
- Borrower has a minimum 620 credit score; and
- At least one (1) borrower has a satisfactory 12-month rental payment history with a monthly payment of at \$300.

A copy of executed rental or lease agreement is required and one (1) of the following:

- 12 months canceled rent checks;
- 12 months bank or payment service statements documenting rent paid;
- Landlord reference from a rental management company ; or
- Written verification of rent from a landlord with no identity of interest. If the landlord is renting from a family member, the following is required:
 - Copy of executed rental or lease agreement; and
 - 12 months canceled checks or bank statements with satisfactory rental payment history.

(b) Mortgage Forbearance A borrower who was granted a mortgage payment forbearance and continues to make payments agreed under the terms of the original Note is not considered delinquent or late and will be treated as if not in forbearance provided the forbearance plan is terminated at or prior to closing. A mortgage that has been granted forbearance must use the payment history in accordance with the forbearance plan for the time period of forbearance in determining late housing payments. The forbearance plan must be exited at or prior to closing. Any borrower who is granted forbearance and is performing under the terms of the forbearance plan is not considered to be delinquent. The following documentation is required for refinance transactions when a mortgage reflects payments under a modification or forbearance plan within 12 months prior to case number assignment, obtain the following:

- A copy of the modification or forbearance plan; and
- Evidence of the payment amount and date of payments during the agreement term.

A forbearance plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Refer to our Product Summaries for housing payment history requirements and mortgage payment forbearance requirements.

Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts.

Compensating factors cannot be used to compensate for derogatory credit.

TOTAL will evaluate the borrower's credit history with regard to late payments in the borrower's credit history. See below for treatment of collection accounts, charge-off accounts, judgments, and disputed accounts.

(a) Waiting Period Requirements The following tables outlines the requirements for borrowers who have filed for bankruptcy, pre-foreclosure, foreclosure, or deed-in-lieu of foreclosure. Pre-foreclosure sales, also known as short sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the property and the lien holders agree to release their liens and forgive the deficiency balance on real estate. A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage. Borrowers who have experienced any of the below significant derogatory events must meet the below requirements.

(b) AUS Approve/Accept Waiting Period The below waiting periods must be met. If the derogatory credit event waiting period cannot be met due to extenuating circumstances, the loan may be manually downgraded. See below Refer and Manual Underwrite/Downgrade Waiting Period for borrower's with extenuating circumstances.

Credit Event	Waiting Period
Foreclosure/DIL	≥ 3 years from the date of the DIL or the date that the borrower transferred ownership of the property from the case number assignment date. If the credit report does not verify the date of foreclosure or DIL of foreclosure, provide the

	deed or other legal documents evidencing the date of property transfer.
Pre-foreclosure/ Short Sale	≥ 3 years from the date of transfer of title by short sale from the case number assignment date. If the credit report does not indicate the date of the short sale, obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.
Chapter 7 Bankruptcy	≥ 2 years from discharge from the case number assignment date. If the credit report does not verify the discharge date or additional documentation is required to determine if liabilities were discharged in the bankruptcy, provide a copy of the discharge papers.
Chapter 13 Bankruptcy	At least 12 months of the payout period as of the case number assignment. <ul style="list-style-type: none"> • Payment history of the plan must be satisfactory, and all required payments made on time; and • The borrower has received written permission from the bankruptcy court to enter into the mortgage transaction.

(c) Refer and Manual Underwrite/Downgrade Waiting Period If the above waiting periods cannot be met, the loan may be downgraded and follow the guidelines below when there are extenuating circumstances. Extenuating Circumstances are non-recurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations, such as serious illness or death of a wage earner. Divorce is not an extenuating circumstance; however if the borrower's mortgage was current at the time of the divorce, and the ex-spouse received the property, and the mortgage was later foreclosed. The inability to sell the property due to a job transfer or relocation is not an extenuating circumstance.

Credit Event	Waiting Period
Foreclosure	≥ 3 years from the date of the DIL or the date that the borrower transferred ownership of the property from the case number assignment date. < 3 years but not less than 12 months or the date that the borrower transferred ownership of the property from the case number assignment date if the foreclosure was: <ul style="list-style-type: none"> • The result of documented extenuating circumstances that were beyond the control of the borrower; and • The borrower has re-established good credit since the foreclosure.
Pre-foreclosure Short Sale	≥ 3 years from the date of transfer of title by short sale from the case number assignment date. < 3 years if, from case number assignment date: <ul style="list-style-type: none"> • All mortgage payments on the mortgage were made within the month due for the 12-month period preceding the short sale; and • Installment debt payments were made within the month due for the 12-month period preceding the short sale. Extenuating Circumstances < 3 years but not less than 12 months or the date that the borrower transferred ownership of the property from the case number assignment date if the foreclosure or DIL was: <ul style="list-style-type: none"> • The result of documented extenuating circumstances that were beyond the control of the borrower; and • The borrower has re-established good credit since the foreclosure.
Chapter 7 Bankruptcy	≥ 2 years from discharge from the case number assignment date. < 2 years from discharge from the case number assignment date and not less than 12 months if the borrower: <ul style="list-style-type: none"> • Can show the bankruptcy was caused by extenuating circumstances beyond the borrower's control; and • Has since exhibited a documented ability to manage financial affairs in a responsible manner. The borrower must have: <ul style="list-style-type: none"> • Re-established good credit; or • Chosen not to incur new credit obligations. If the credit report does not verify the discharge date or additional documentation is required to determine if liabilities were discharged in the bankruptcy, provide a copy of the discharge papers.
Chapter 13 Bankruptcy	At least 12 months of the payout period as of the case number assignment. <ul style="list-style-type: none"> • Payment history of the plan must be satisfactory, and all required payments made on time; and • The borrower has received written permission from the bankruptcy court to enter into the mortgage transaction.

(d) Delinquent Credit

(i) AUS Approve/Accept

Credit Event	Requirements
Delinquent Federal Tax Debt and Non-Tax Debt	See Chapter 2A Loan Eligibility.
Judgments	A judgment refers to any debt or monetary liability of the borrower, and the borrower' spouse in a community property state unless excluded by state law, created by a court, or other adjudicating

	<p>body. Court-ordered judgments must be resolved or paid off prior to or at closing. A judgment is considered resolved if all of the following are met:</p> <ul style="list-style-type: none"> • The borrower has a valid agreement with the creditor to make regular payments on the debt; • The borrower has made a minimum of three (3) months scheduled payments in a timely manner. Borrowers may not prepay scheduled payments in order to meet the required minimum of three (3) months of payments. Payments must be included in the DTI ratio; • The judgment will not supersede the new loan; • One (1) of the following must be provided: <ul style="list-style-type: none"> ◦ Evidence of payment in full; ◦ Payoff statement; or ◦ The payment arrangement with creditor, if not paid prior to or at closing, and a subordination agreement for any liens existing on title. <p>An explanation is not required.</p> <p>Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.</p>
Collection Accounts	<p>A collection account refers to a loan or debt that has been submitted to a collection agency through a creditor.</p> <p>An explanation of collection accounts is not required.</p> <p>If the cumulative balance of all collection accounts is greater than or equal to \$2,000, one (1) of the following must be documented:</p> <ul style="list-style-type: none"> • The debt is paid in full at or prior to closing (verification of acceptable source of funds required); • The borrower has made payment arrangements with the creditor. The monthly payment must be included in the borrower's DTI ratio; or • If evidence of a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection, and include the monthly payment in the borrower's DTI ratio. <p>Medical collections may be excluded from the \$2,000 balance and do not have to be paid off.</p> <p>Unless excluded under state law, collection accounts of a non-borrowing spouse in a community property state are included in the cumulative balance.</p>
Charge-off Accounts	<p>A charge off account refers to a loan or debt that has been written off by the creditor.</p> <p>An explanation of charge off accounts is not required</p> <p>Charge-off accounts do not need to be included in liabilities or debts.</p>
Consumer Credit Counseling	<p>A borrower who has participated in consumer credit counseling may be eligible. Follow the AUS decision. No explanation or other documentation is needed.</p>
Disputed Derogatory Credit Account	<p>Disputed derogatory credit account refers to:</p> <ul style="list-style-type: none"> • Disputed charge off accounts; • Disputed collection accounts; and • Disputed accounts with one (1) late payment in the last 24 months. <p>A letter of explanation from the borrower is not required.</p> <p>If the credit report indicates that the borrower has \$1,000 or more collectively in disputed derogatory credit account, the loan must be downgraded and manually underwritten.</p> <p>Exclusions in the cumulative balance requiring a manual downgrade include:</p> <ul style="list-style-type: none"> • Disputed medical accounts; and • Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. Supporting documentation must be provided, such as a police report. <p>Disputed derogatory accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the loan is downgraded to a Refer and must be manually underwritten.</p>
Non-Derogatory Disputed Accounts	<p>Non-derogatory disputed accounts are disputed accounts:</p> <ul style="list-style-type: none"> • Have a zero balance; • Have no late payments within the past 24 months or greater; or • Are current and paid as agreed. <p>If a non-derogatory account is being disputed by the borrower, a manual downgrade is not required however the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay</p>

the loan. If the dispute results in the borrower's monthly debt payments being less than the amount on the credit report, documentation of the lower payments must be provided.

Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.

(ii) Refer and Manual Underwrite/Downgrade

Credit Event	Requirements
Delinquent Federal Tax Debt and Non-Tax Debt	See Chapter 2A Loan Eligibility.
Judgments	<p>A judgment refers to any debt or monetary liability of the borrower, and the borrower' spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body. Court-ordered judgments must be resolved or paid off prior to or at closing. Regardless of the number of outstanding judgments, determine if the judgment was the result of:</p> <ul style="list-style-type: none"> • The borrower's disregard for financial obligations; • The borrower's inability to manage debt; or • Extenuating circumstances. <p>A judgment is considered resolved if all of the following are met:</p> <ul style="list-style-type: none"> • The borrower has a valid agreement with the creditor to make regular payments on the debt; • The borrower has made a minimum of three (3) months scheduled payments in a timely manner prior to approval. A copy of the payment arrangement with creditor and subordination agreement for any liens on title, if applicable and evidence of timely payments made for three (3) months is required. Payments must be included in the DTI ratio; • The judgment will not supersede the new loan; • One (1) of the following must be provided: <ul style="list-style-type: none"> ◦ Evidence of payment in full; ◦ Payoff statement; or ◦ The payment arrangement with creditor, if not paid prior to or at closing, and a subordination agreement for any liens existing on title. <p>Borrowers may not prepay scheduled payments in order to meet the required minimum of three (3) months of payments. Payments must be also included in the calculation of the DTI ratio.</p> <p>Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.</p>
Collection and Charge-off Accounts	<p>A collection account refers to a loan or debt that has been submitted to a collection agency through a creditor.</p> <ul style="list-style-type: none"> • The borrower must provide a letter of explanation, with supporting documentation, for each outstanding collection account; and • The underwriter must justify and document reasons for approving loans with collection accounts.
Consumer Credit Counseling	<p>Document all of the following:</p> <ul style="list-style-type: none"> • Minimum of one (1) year of the pay-out period has elapsed; • All payments have been made on time; and • Borrower has received written permission from the counseling agency to enter into the mortgage transaction.
Disputed Derogatory Credit Account	<p>Disputed derogatory credit account refers to:</p> <ul style="list-style-type: none"> • Disputed charge off accounts; • Disputed collection accounts; and • Disputed accounts with late payments in the last 24 months. <p>The following may be excluded from consideration in the underwriting analysis:</p> <ul style="list-style-type: none"> • Disputed medical account; and • Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use. Documentation, such as a police report is required to support the status of the account. <p>The borrower must provide a letter of explanation and documentation supporting the basis of the dispute. If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.</p>
Non-Derogatory Disputed Accounts	<p>Non-derogatory disputed accounts are disputed accounts:</p> <ul style="list-style-type: none"> • Have a zero balance; • Have no late payments within the past 24 months or greater; or • Are current and paid as agreed.

If a non-derogatory account is being disputed by the borrower, a manual downgrade is not required however the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay the loan. If the dispute results in the borrower's monthly debt payments being less than the amount on the credit report, documentation of the lower payments must be provided.

Newrez Wholesale (formerly Caliber) > Government Guidelines > Government Underwriting Guidelines > FHA Underwriting Guidelines > Assets

Assets

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- Minimum Down Payment and Cash to Close
- Reserve Requirements
- Interested Party Contributions (IPC)
- Asset Sources
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Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay:

- Down payment;
- Prepaid items;
- Closing costs;
- Cash reserves that may be required; and
- Costs outside of closing or debt satisfaction.

All down payment funds and cash to close (including funds used to satisfy any debt being paid off) must be documented and verified. The minimum required down payment is 3.5% of the lesser of the sale price or appraised value. The down payment requirement cannot be met by borrower paid closing costs, prepaid expense, commitment fees or discount points or premium pricing.

Closing costs, prepaids and other fees may not be applied towards the borrower's MRI.

A detailed review of the Closing Disclosure (CD) is required to ensure that excessive seller and lender credits do not compromise the borrower's Minimum Required Investment (MRI) of 3.5%.

The borrower's MRI must be provided by an eligible source and may not come from any of the following:

- The seller of the property (seller may be family giving gift of equity; see Gift of Equity section);
- 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 party included in either of the above.

While additional funds to close may be provided by one (1) of these sources, none of the borrower's MRI may come from these sources. All permissible sources for the borrower's MRI must be documented.

Additionally, Governmental Entities, when acting in their governmental capacity, may provide the borrower's MRI when the Governmental Entity is originating the insured mortgage through one of its homeownership programs.

(a) Estimating Settlement Requirements In addition to the minimum required investment, additional expenses must be included in the total amount of cash needed to close.

Origination Fee and Other Closing Costs	A reasonable origination fee may be charged to the borrower. In addition, customary and reasonable closing costs necessary to close the mortgage. Charges may not exceed actual costs.
Discount Points	Discount points may be paid by the borrower and become part of the total cash required to close.
Prepaid Items, including per diem interest	Prepaid items may include flood and property insurance premiums, MIP, real estate taxes, and per diem interest.
Non-realty or personal items (paid for separately, outside of the sales contract)	Non -realty or personal property that the borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum mortgage, are included in the total cash requirements.
Upfront MIP	Any UFMIP paid in cash are added to the total cash requirements. The UFMIP must be entirely financed into the mortgage amount (except for any amount less than \$1.00) or paid entirely in cash.
Real Estate Agent	If a borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the borrower's settlement requirements.
Repairs and Improvements	Repairs and improvements, or any portion paid by the borrower that cannot be financed into the mortgage, are part of the borrower's total cash requirements.
Interest Party Contributions	Interested party credit may be applied to the origination fees, other closing costs, and discount points including any items Paid Outside of Closing (POC). The refund of the borrower's POCs may be used toward the borrower's MRI if there is documentation to show that the POCs were paid with the borrower's own funds. If credit card financing is used to pay the POC costs, evidence of repayment of those fees must

	be provided to include in the borrower's MRI. The total interested party contributions must be identified on the sales contract or other legally binding document, form HUD-92900-LT, Closing Disclosure, or similar legal document. When a legally binding document other than the sales contract is used to document the interested party contributions, a copy of this document must be provided to the appraiser.
Premium Pricing	<ul style="list-style-type: none"> • Premium pricing is a lender credit associated with the interest rate. • Premium pricing may be used to pay a borrower's actual closing costs and prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation, unless the lender or third party originator is the property seller, real estate agent, builder, or developer. • The funds derived from a premium pricing: <ul style="list-style-type: none"> ◦ Must be disclosed in accordance with RESPA; ◦ Must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaids; and ◦ May not be used for payment of debts, collection accounts, escrow shortages or missed mortgage payments, or judgments. • The Closing Disclosure and Loan Estimate must itemize all charges being paid on the borrower's behalf. Disclosing a lump sum amount is not acceptable. • If there are excess funds after applying all premium pricing credits those funds must be applied to the principal balance of the loan in an amount not to exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan.
Real Estate Tax Credits	Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the borrower's MRI if the borrower had sufficient assets to meet the MRI and the borrower paid closings costs at time of underwriting. This permits the borrower to bring a portion of their MRI to closing and combine that portion with the real estate tax credit for their total MRI.

Reserve Requirements

Reserves are eligible assets remaining after closing. Reserves are measured by the number of months of the qualifying payment for the subject mortgage that the borrower could pay using his or her financial assets. The monthly housing expense includes:

- Principal and interest;
- Property and flood insurance;
- Mortgage insurance premiums;
- Real estate taxes;
- Ground rent;
- Special assessments;
- Homeowners' association dues (excluding any utility charges that apply to the individual unit); and
- Subordinate financing payments on mortgages secured by the subject property.

Reserves do not include:

- Amount of cash taken at closing in a cash-out transaction;
- Borrowed funds from any source;
- Cash on hand;
- Equity in another property owned by the borrower;
- Gift funds (manual underwrite); and
- Incidental cash received at closing in other loan transactions;

Interested Party Contributions (IPC)

Interested Parties to the transaction may include direct participants such as the builder/developer, seller, real estate agent, lenders, third party originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an interested party, or combination of parties, toward the borrower's origination fees, other closing costs, including any items POC, prepaid expenses, and discount points.

A lender or employee is not considered an interested party to a sales transaction unless the lender or employee is the property seller or is affiliated with the property seller or another interested party to the transaction.

Contributions from someone with whom the borrower is a family member are not considered financing contributions. Therefore, they would not be subject to the limits listed in the following section. These funds are considered gifts and are treated as such. See Gifts in this section.

All interested party contributions must be disclosed on the Closing Disclosure.

(a) Interested Party Contributions Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to interested party contribution limits. The satisfaction of a PACE lien or obligation against the property by the seller is not considered an interested party contribution. Interested party contributions may not be used for the borrower's MRI. The refund of the items paid outside of closing (POC) may be used toward the borrower's MRI if it is documented that the POCs were paid with the borrower's own funds. Interested Party Contributions include but are not limited to the following:

- Closing costs
- Discount points
- Origination fees
- Prepaid expenses
- Interest rate buydowns
- Payments of mortgage interest for fixed rate mortgages
- Mortgage payment protection insurance
- Payment of the upfront MIP

(b) Inducements to Purchase Inducements to purchase refer to certain expenses paid by the seller and/or another interested party on behalf of the borrower and result in a dollar-for-dollar reduction to the purchase price when calculating the Adjusted Value of the property before calculating the LTV. Inducements to Purchase include but are not limited to the following:

- Contributions exceeding 6% of the purchase price;
- Contributions exceeding the origination fees, other closings costs, prepaid expenses, and discount points;
- Decorating allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Paying off consumer debt;
- Personal property items such as cars, boats, riding lawn mowers, furniture, televisions; and
- Sales commission on the borrower's present residence; see below

Personal Property	<p>Replacement of existing personal property are not considered an inducement to purchase, provided the replacement is made prior to closing and no cash allowance is given to the borrower. The inclusion in the sales agreement is not considered an inducement to purchase if inclusion of the item is customary for the area. Such items include:</p> <ul style="list-style-type: none"> • Ranges • Refrigerators • Dishwasher • Dryers • Washers • Carpeting • Window treatments • Other items determined by the HOC
Sales Commission	<p>An inducement to purchase exists when:</p> <ul style="list-style-type: none"> • The seller and/or an interested party pays a portion of the borrower's sales commission on the sale of the borrower's present home, and • The borrower is not paying sales commission on the sale of his present home and the same real estate broker or agent participates in both transactions and the seller paid a real estate commission on the property being purchased that exceeds what is typical for the area.
Rent Below Fair Market	<ul style="list-style-type: none"> • A reduced rent is an inducement to purchase when the sales contract includes terms permitting the borrower to live in the property rent-free or has an agreement to pay a rental amount greater than 10% below the appraiser's estimate of fair market rent. • When such an inducement exists, the amount of inducement is the difference between the rent charged and the appraiser's estimate of fair market rent prorated over the period between execution of the sales contract and execution of the property sale. • Rent below fair market rent is not considered an inducement to purchase when a builder fails to complete and close on a property at the agreed-upon time and permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.

Asset Sources

Acceptable asset sources are listed below. Not all asset sources are acceptable for down payment, closing costs and reserves. See each section for asset source acceptability.

- Financial Institution Accounts
- Business Funds
- Cash on Hand
- Cryptocurrency
- Down Payment Assistance
- Earnest Money Deposit
- Employer Assistance Benefits
- Foreign Assets
- Gift Funds
- Income Tax Refund

- Life Insurance-Cash Value
- Loans Secured by Financial Assets
- Notes Receivable/Repayment of Loans
- Private Savings Clubs
- Real Estate Commission
- Rent Credit/Lease with Option to Purchase
- Retirement Accounts
- Sale of Personal Property
- Sale of Real Estate
- Stocks, Bonds, and Mutual Funds
- Sweat Equity
- Trade Equity
- Trust Funds

(a) Financial Institution Accounts Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts. Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts. Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits, income levels, and sources are necessary to validate the documents.

Document	Requirements
Account Statements	<ul style="list-style-type: none"> • Account statements may be obtained to document the borrower's assets. • Provide the most recent statement(s) that shows a beginning and ending balance or the most recent quarterly account statement. If the previous month's balance is not shown, two (2) month's statements is required. Account statements must be dated within 45 days of application. Quarterly account statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available. • Account statements must clearly identify: <ul style="list-style-type: none"> ◦ The financial institution ◦ Borrower as the account holder ◦ At least the last four (4) digits of the account number ◦ Time period covered ◦ Ending balance • If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead signed by a representative. ATM receipts are not permitted. • Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source.
Verification of Deposit	<p>A Verification of Deposit (VOD) issued by the financial institution may be used to verify assets. A recent bank statement must accompany the VOD.</p> <p>Each Verification of Deposit must clearly identify:</p> <ul style="list-style-type: none"> • The financial institution; • Borrower as the account holder; • At least the last four (4) digits of the account number; • Type of account; • Open date; • Account balance as of the date of the VOD; and • Average balance for the previous two (2) months. When an average balance is not provided, obtain the most recent two (2) months account statements. <p>The VOD must be remitted directly to the depository. A VOD should never be mailed to a Post Office Box or to an individual's attention. If the borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.</p>
Information Obtained via Internet	<ul style="list-style-type: none"> • Documents obtained from an internet website must be authenticated and examine portions of printouts downloaded from the internet. • Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document.
Third Party Asset Verifications	<p>Direct verification by a third-party asset verification is acceptable as long as:</p> <ul style="list-style-type: none"> • The borrower provided authorization to use third-party verification; • The date of the data contained in the verification is within 30 days of the date of the verification; and • The verified information provided conforms with the information that would be on a VOD or account statement, including a transaction history.
Closing Disclosures	Closing Disclosures must:

	<ul style="list-style-type: none"> • Be computer-generated or typed; • Identify the borrower as the seller of the property; • Identify the property sold; • Show the proceeds to the property seller; • Show the disposition of all liens against the property; and • Be signed by the buyer and the seller, or their authorized agents.
Review of Account Statements/VOD	<ul style="list-style-type: none"> • An explanation and documentation for the source of funds is required for any recently opened accounts and recent large deposits in excess of 1% of the Adjusted Value. In addition, verify that any recent debts were not incurred to obtain part or all of the required borrower cash investment. • If a large deposit is from another account that is verified in the loan file, that account must be verified after the withdrawal to ensure that the assets are not counted twice. • Unverified funds are not acceptable sources for the down payment, closing costs, reserves, and debt payoff. • Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.

(b) Business Funds Business assets may be used to meet the borrower's MRI. Provide all of the following:

- The borrower must be the majority owner of the business;
- The use of these funds must be documented as having no negative impact on the business's livelihood;
- Business assets may not be used for reserves; and
- Business tax returns must be in the loan file.

(c) Cash on Hand Cash on hand refers to cash held by the borrower outside of a financial institution. Cash on hand may be used as an acceptable source of funds. There must be evidence that the funds are deposited into a financial institution or being held by a title company or real estate agent. The reasonableness of the accumulation of these funds based on the time-period during which the funds were saved must be determined based on the borrower's:

- Income stream;
- Spending habits;
- Documented expenses; and
- History of using financial institutions.

The recognition of such funds carries with it the potential for abusive practices; therefore, each case should stand the test of reason and common sense.

(d) Cryptocurrency Cryptocurrency is not an eligible asset; however, proceeds from the liquidation of cryptocurrency may be eligible for down payment, closing costs or reserves when all of the following requirements are met:

- Verify that the cryptocurrency purchases were made using eligible assets (such as funds from a bank, brokerage, or retirement account, proceeds from a sale of home or other tangible asset, etc.) and otherwise comply to existing policy on large deposits.
- Document the trail of the cryptocurrency converted into U.S. dollars and transferred to the borrower's U.S. bank account; and
- Provide statement that shows:
 - The original purchase of the cryptocurrency (dollar value and when purchased)
 - Bank or investment fund statements, bill of sale receipts or other proof to identify source of funds used to purchase the cryptocurrency.
 - Statements showing the sale, liquidation or transfer of the cryptocurrency converted into U.S. dollars and transferred to the borrower's bank or brokerage account.

(e) Down Payment Assistance Down payment assistance (DPA) is an umbrella term for assistance to aid borrowers with the required down payment and/or borrower-paid closing costs and prepaids in a purchase transaction. All down payment assistance programs must be reviewed and approved. The DPA Submission Checklist must be used when submitting a down payment assistance for approval. The DPA can be in the form of a grant (gift) or secondary financing. Any type of financing that creates a lien against the subject property is considered secondary financing, even if it is a "soft" or "silent" second (has no monthly repayment provisions) or has other features forgiving the debt. See Chapter 2C Financing, 2C.5 Secondary Financing. Prior to approval, the non-profit's gift documentation must be reviewed to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift. The grant to the home buyer must meet FHA requirements. Non-profit entities are not permitted to provide gifts to home buyers for the purpose of paying off installment loans, credit cards, collections, judgments, liens, and similar debts. It must be determined that the entity providing the down payment assistance is a charitable organization as defined by Section 401(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c)(3) of the IRC. One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

DPA Source	Requirements
Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax Exempt Status	<p>If a charitable organization makes a gift that is to be used for all or part of the down payment, and the organization providing the gift loses or give up its federal tax-exempt status, the gift will be an acceptable source of down payment provided that:</p> <ul style="list-style-type: none"> • The gift is made to the borrower; • The gift is properly documented; and • The borrower has entered into a contract of sale (including any amendments to the purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.
Gift from Governmental Entity	If a Governmental Entity is providing gift funds, the gift will be an acceptable source of down payment provided

	<p>that the governmental entity incurred prior to or at closing an enforceable legal liability or obligation to fund the borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the lender for the use of the funds legally belonging to the lender to fund the borrower's MRI.</p> <p>One of the following documentation must be provided:</p> <ul style="list-style-type: none"> • A cancelled check, evidence of wire transfer or other draw request showing the draw of funds provided towards the borrower's MRI from the governmental entity's account; or • A letter from the governmental entity, signed by an authorized official, establishing that the funds provided towards the borrower's MRI were funds legally belonging to the governmental capacity, when acting in the governmental capacity, at or before closing. <p>Where a letter from the governmental entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the borrower's MRI legally belonged to the governmental entity at or before closing, by stating, for example:</p> <ul style="list-style-type: none"> • The governmental entity has at or before closing, incurred a legally enforceable liability as a result of its agreement to provide funds towards the borrower's MRI. • The governmental entity has at or before closing, incurred a legally enforceable obligation to provide the funds towards the borrower's MRI. • The governmental entity has at or before closing, authorized a draw on its account to provide the funds towards the borrower's MRI. <p>While it is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the governmental entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source</p>
Disaster Relief Grants	<ul style="list-style-type: none"> • Grants or loans from state and federal agencies, such as the Federal Emergency Management Agency (FEMA), that provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's MRI. • Secured or unsecured disaster relief loans administered by the Small Business Association (SBA) may also be used. • If the SBA loan will be secured against the property being purchased, it must be clearly subordinate to the FHA insured mortgage. • Any monthly payment arising from this type of loan must be included in the qualifying ratios. The promissory Note must be documented.
Federal Home Loan Bank (FHLB) Homeownership Set-Aside Grant Program	<p>The FHLB Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of down payment assistance.</p> <p>The following must be documented:</p> <ul style="list-style-type: none"> • The receipt and terms of use of the grant funds; and • The Retention Agreement required by the FHLB is recorded against the subject property and results in a Deed Restriction, and not a second lien. The Retention Agreement must: <ul style="list-style-type: none"> ◦ Provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the borrower; ◦ Include language terminating the legal restriction on conveyance if title to the subject property is transferred by foreclosure or DIL or assigned to the Secretary of HUD; and ◦ Comply with all other FHA requirements.

(f) Earnest Money Deposit The earnest money deposit must be documented if the amount of the deposit exceeds 1% of the sales price or is excessive based on the borrower's history of accumulating savings. Obtain any of the following:

- Copy of the canceled check;
- Certification from the deposit-holder acknowledging receipt of funds; or
- A VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit, or direct electronic verification by a TPV vendor.

If the source of the earnest money deposit was a gift, document in compliance with Gift requirements.

(g) Employer Assistance Benefits Employer Assistance refers to benefits provided by an employer to relocate the borrower or assist in the borrower's housing purchase, including closing costs, prepaid expenses, MIP, or any portion of the MRI. Employer Assistance benefits does not include benefits provide by an employer through secondary financing. Refer to Chapter 2C Financing, 2G.5 Secondary Financing. A salary advance cannot be considered as assets to close.

(i) Relocation Guaranteed Purchase The net proceeds from the relocation guaranteed purchase may be used as cash to close. The net proceeds are calculated by taking the relocation guaranteed purchase price less the outstanding liens and expenses. The following documentation is required:

- An executed buyout agreement signed by all parties;
- Receipt of funds showing that the employee or relocation services takes responsibility for the outstanding mortgage debt; and
- The agreement guaranteeing the employer purchase of the borrower's previous residence and net proceeds from the sale.

(ii) Employer Assistance Plans Funds received from an Employer Assistance Plan may be used as cash to close. Documentation of receipt of the assistance is required. If the employer provides this benefit after closing, the borrower must supply evidence of sufficient funds for closing.

(h) Foreign Assets The borrower’s source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions. Foreign assets may be used for down payment, closing costs, and reserves.

- All asset documents must be completed in English, or provide a complete and accurate translation, attached to each document, and ensure the translation is complete and accurate; and
- Funds must be transferred into a U.S. or State regulated financial institution at least 60 days prior to closing.

(i) Gift Funds The borrower may use funds received as a gift from an acceptable donor to satisfy the borrower’s MRI, closing costs, and prepaids. The balance of documented gift funds remaining in the borrower’s account after closing may be considered as cash reserves, except for manually underwritten loans. The loan must comply with all of the following guidelines for gift documentation.

Gift Letter	<p>A gift letter signed by the donor must:</p> <ul style="list-style-type: none"> • Specify the dollar amount of the gift or gift of equity; • Specify the date the funds were or will be transferred; • Include the donor’s statement that no repayment is expected; • Indicate the donor’s name, address, telephone number, and relationship to the borrower; and • Signature of all parties.
Donor	<p>A gift may be provided by any of the following:</p> <ul style="list-style-type: none"> • Child, parent, or grandparent; <ul style="list-style-type: none"> ◦ 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, stepbrother, sister, stepsister; • Aunt, Uncle; • Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother -in-law, or sister-in-law of the borrower; • Borrower’s employer or labor union; • Close friend with a clearly defined and documented interest in the borrower; • Charitable organization; • Governmental agency or public entity that has a program providing homeownership assistance to: <ul style="list-style-type: none"> ◦ Low or moderate income families; or ◦ First time home buyers.
Transfer of Gift Funds	<p>Verification and documentation that sufficient funds to cover the gift are available in the donor’s account or have been transferred to the borrower’s account prior to closing is required.</p> <p>Transfer of gift funds from the donor to the borrower must be verified and documented based on one (1) of the following two (2) options:</p> <ol style="list-style-type: none"> 1. If the gift funds are 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. 2. 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 evidencing payment to the borrower or settlement agent, and the donor’s bank statement evidencing sufficient funds for the amount of the gift. 3. For gifts of land, obtain proof of ownership by the donor and evidence of the transfer of title to the borrower. <p>When the gift funds are paid directly to the settlement agent, 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. A bank statement evidencing sufficient funds for the amount of the gift must also be provided because the funds are not already verified in the borrower’s account. See #2 above.</p> <p>If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written evidence that the funds were borrowed from an acceptable source, and not from a party to the transaction, including the lender.</p> <p>Regardless of when the gift funds are made available to a borrower or settlement agent, the underwriter must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.</p> <p>The transfer and deposit of the gift funds must coincide with information on gift letter.</p> <p>Cash gifts and ATM receipts are not an acceptable source of donor gift funds.</p>
Gift of Equity	<p>Borrowers may receive a gift of equity from the seller of the subject property, provided the seller is a family member. A gift letter must be provided.</p>

	<p>The gift must be reflected as a credit on the Closing Disclosure and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution.</p> <p>The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The sales agreement should refer to the gift of equity as part of the transaction. The Closing Disclosure will satisfy the donor's ability and receipt of gift verification.</p>
Wedding Gifts	<p>When funds are received as a wedding gift all of the following must be provided:</p> <ul style="list-style-type: none"> • Recent marriage certificate not more than six (6) months old, and • Verification of receipt of the funds via account statement/deposit slip(s). The date of the deposit slip and the date on the marriage certificate must be within a reasonable period.

(j) Income Tax Refund If an income tax refund that has not yet been received will be used as funds for down payment or closing costs, the borrower must provide a copy of their signed personal tax return to verify the anticipated refund. Verification of receipt of the Refund Anticipation Loan via a copy of the refund check or electronic deposit and evidence the Refund Anticipation Loan has been repaid is required.

(k) Life Insurance-Cash Value Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment and/or closing costs. Document all of the following:

- Borrower as policy owner;
- Period covered and current cash value;
- Receipt of the funds; and
- Any outstanding loans.

If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated.

(l) Loans Secured by Financial Assets

Source	Requirements
Loans Secured by Financial Assets	<p>Loans secured against a financial assets, such as deposit accounts, certificate of deposits, investment accounts, or real property may be used for the total required investment. These assets may include stocks, bonds, and real estate other than the property being purchased. If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves. All of the following must be provided:</p> <ul style="list-style-type: none"> • Existence of the asset; • Promissory Note; and • Loan proceeds. <p>The monthly payment must be included in the DTI ratio unless excluded in Chapter 2H Liabilities and Debt Ratios.</p> <p>Only an independent third party may provide the borrowed funds. The seller, real estate agent or broker, lender or other interested party may not provide these funds.</p> <p>Unacceptable borrowed funds include:</p> <ul style="list-style-type: none"> • Unsecured signature loans; • Cash advances on credit cards; • Borrowing against personal property such as cars, recreational vehicles, stamps, coins, or other collectibles, household goods and furniture; and • Other similar unsecured financing.
Retirement Loans	<p>The balance of the retirement account must be reduced by the amount of the outstanding balance of the retirement account loan.</p> <p>All of the following documentation must be provided:</p> <ul style="list-style-type: none"> • Existence of the asset; • Promissory Note; and • Loan proceeds.
Disaster Relief Grant/Loans	<ul style="list-style-type: none"> • Disaster Relief Loans refer to loans from a governmental entity that provide immediate housing assistance to individuals displaced due to a natural disaster. • Grants or loans from state and federal agencies, such as FEMA, which provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's MRI. • Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the subject property, it must be subordinate to the first mortgage lien and meet the requirements for Secondary Financing provided by Governmental Entities. See Chapter 2C Financing for details. • A copy of the promissory note must be provided. • Any monthly payment must be included in the DTI ratio.

(m) Notes Receivable/Repayment of Loans When funds are obtained from repayment of a previous loan made by the borrower, all of the following

information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds;
- Evidence that the funds were withdrawn from the borrower's account; and
- Verification that repayment has been made. Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

(n) Private Savings Clubs Private savings club refers to a non-traditional method of saving by making deposits into a member-managed resource pool. All of the following is required:

- Club's account ledgers and receipts;
- Verification from the club treasurer that the club is still active, and length of time club has been active; and
- Evidence of receipt of funds from the club.

The underwriter must be able to determine that:

- It was reasonable for the borrower to have saved the money claimed; and
- There is no evidence that the funds were borrowed with an expectation of repayment.

If the borrower is obliged to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the borrowers' total DTI ratios.

(o) Real Estate Commission Real estate commission from sale of subject property refers to the borrower's (buyer's) portion of a real estate commission earned from the sale of the property being purchased. The real estate commission received from the sale of the subject property may be considered an acceptable source of funds if the borrower is a licensed real estate agent. A family member entitled to the commission may also provide it is a gift, in compliance with gift requirements. It must be documented that the borrower or family member is a licensed real estate agent and is entitled to a commission from the sale of the subject property purchase.

(p) Rent Credit for Option to Purchase Rent credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair market rent. The cumulative dollar amount of rental payments that exceeds the appraiser's estimate of fair market rent may be used towards the MRI. All of the following must be provided:

- Purchase agreement;
- Market rent as determined by the subject property appraisal; and
- Evidence of receipt of the rental payments.

See Interested Party Contributions (IPC) below for rent credits considered an inducement to purchase.

(q) Retirement Accounts Vested funds from individual retirement accounts (IRA, SEP, and Keogh) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as a source of funds for down payment, closing costs and cash reserves. The most recent monthly or quarterly statement must be provided and must identify:

- The borrower's vested amount;
- The borrower's eligibility for withdrawals; and
- Terms and conditions for withdrawals.

(i) Down Payment and Closing Costs When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn, and proof of withdrawal must be provided.

(ii) Cash Reserves When funds from these sources are used to support the cash reserve requirement, it is not required to withdraw the funds from the account, but the "net" amount eligible for withdrawal must be determined. Retirement accounts that do not allow for any type of withdrawal may not be used for reserves. In addition, retirement accounts that only allow for withdrawal in connection with the borrower's employment termination, retirement or death, the vested funds must not be considered as reserves (e.g., PERS or like accounts). To account for any applicable withdrawal penalties or income tax, a "net" withdrawal must be determined using 60% of the vested amount less any outstanding loans, unless the borrower provides documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal.

(r) Sale of Personal Property Funds derived from the sale of assets (personal property) other than real estate may be used for cash for closing. The asset must be verified by all of the following:

- Estimate of the value of the item;
- Bill of sale; and
- Evidence of receipt and deposit of the proceeds.

The estimate of the value may be a published value estimate issued by organizations such as automobile dealers, or a separate, written appraisal by a qualified appraiser with no financial interest in the transaction.

The lesser of the estimated value or actual sales price must be used when determine sufficient assets to close.

(s) Sale of Real Estate The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceed proceeds.

Net proceeds based on sales contract Obtain a copy of the executed contract of sale and use the following calculation: sales price minus (sales costs plus all outstanding liens) = Estimated sales proceeds
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Net proceeds based on listing price Use 90% of listing price minus all outstanding liens = Estimated sales proceeds The 10% adjustment factor must be adjusted depending on market conditions in the area.

(t) Stocks, Stock Options, Bonds, Mutual Funds The value of stocks, bonds or mutual funds must be documented by one (1) of the following:

- Most recent two (2) month's statements or quarterly statement; or
- Copy of bond or stock certificate accompanied by a current, dated newspaper or internet stock list if not held in a brokerage account.
- Government-issued savings bonds should be valued at the purchase price unless redemption value can be determined and verified.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

Evidence of liquidation is not required.

(u) Trade Equity Trade Equity refers to when a borrower trades their real property to the seller as part of the cash investment. The amount of the borrower's equity contribution is determined by using the lesser of the subject property's appraised value or sales price and subtracting all liens against the property being traded, along with any real estate commission. All of the following must be obtained:

- Uniform Residential Appraisal Report in compliance with FHA appraisal policy; and
- Closing Disclosure or similar legal document.

Trade equity cannot result in cash back to the borrower.

(v) Trust Funds Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details all of the following information:

- Identify the trustee including name, address, telephone number and individual contact;
- The trustee must be an independent party that typically manages trust accounts (trust company, financial institution, CPA, lawyer);
- Identify the borrower as the beneficiary;
- Show that the borrower has access to all or certain specific amount of the funds;
- The trust has the assets to disburse funds to the borrower; and
- If the assets are required for closing, proof of receipt is required.

Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Assets derived from business activity that may be permitted by State law but is prohibited by Federal law, including but not limited to marijuana related business assets
- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales)
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Funds in a Custodial (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) or "In Trust For" account
- Gift that must be repaid in full or in part
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Restricted stock
- Personal unsecured line of credit or loan
- Proceeds from an IRS Tax Code 1031 Exchange
- Salary advance
- Sweat equity

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Liabilities and Debt Ratios

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- Monthly Housing Expense
- Monthly Obligations
- Obligations Not Considered Debt

Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITI.

- Principal and interest on the first mortgage loan
- Interest payments for Interest-only loans
- Subordinate financing payments on mortgages secured by the subject property
- Hazard insurance premiums
- Flood insurance premiums
- Real estate taxes
- Homeowners' association dues

- Leasehold payments
- Ground rent
- Special assessments with more than ten (10) months remaining
- Any other escrow payments

(a) Real Estate Taxes For real estate taxes, an accurate estimate of monthly property tax must be used when qualifying borrowers. For new construction, property tax estimates must be based on the land and completed improvements, not just on the land value.

(b) Tax Abatements Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. The abated amount may be used provided that:

- The abated amount can be documented with the taxing authority; and
- The abatement will remain in place for at least the first three (3) years of the loan.

(c) Condominium Utility Expense The portion of a condominium fees that is clearly attributable to utilities may be subtracted from the HOA fees before calculating qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

Monthly Obligations

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation.

Monthly expenses include:

- Alimony and Child Support Payments
- Authorized User Accounts
- Business Debt
- Co-Signed Loans
- Court-Ordered Assignment of Debt
- Federal Debt
- Home Equity Lines of Credit
- Installment Debt
- Lease Payments
- Loans Secured by Financial Assets
- Mortgage Assumptions
- Negative Income
- Non-borrowing Spouse Debt in Community Property States
- Other Real Estate Owned
- Private Savings Clubs
- Revolving Charges/Lines of Credit
- Student Loans
- Undisclosed Debt

(a) Alimony and Child Support Payments

(i) Alimony The borrower's gross monthly income should be reduced by the amount of the monthly alimony obligation in the gross monthly income calculation and not included as a debt unless the borrower will qualify with the alimony payment as a debt and not as income reduction.

(ii) Child Support Child support and other maintenance payments must be included in the DTI ratio. A copy of the divorce decree, separation agreement, maintenance agreement or other legal order is required to document the payment and the number of remaining payments. The borrower's paystubs covering no less than 28 consecutive days must be obtained to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support or other maintenance. The monthly obligation is determined by the greater of:

- The amount shown on the most recent decree or agreement establishing the payment obligation; or
- The monthly amount of the garnishment.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

(b) Authorized User Accounts All monthly debt obligations on authorized user accounts must be included in the DTI ratio unless there is documentation to evidence the primary account holder has made all required payments on the account for the previous 12 months. If less than three (3) payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI ratio. Evidence such as cancelled checks or automated savings withdrawals will be accepted.

(c) Business Debt When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio unless all of the following are considered:

- Documentation is provided to verify that the debt is paid by the business; and
- The debt was considered in the cash flow analysis of the business.

The debt is considered in the cash flow analysis where the borrower's business income 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 business income tax returns show an interest-expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

(d) Co-signed Loans When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability. The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making

payments for the last 12 consecutive months and the account is current with no history of delinquency during that time. Evidence such as cancelled checks or automated savings withdrawals will be accepted.

(e) Court-ordered Assignment of Debt When the borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, the borrower has a contingent liability that must be included in the DTI ratio unless the divorce decree shows the ordering of the ex-spouse to make the payments. Evidence that the legally obligated party has made 12 months timely payments is not required. A copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments is required. The payment history of the debt need not be taken into consideration after the transfer date occurred or assignment to another party.

(f) Federal Debt Federal debt refers to debt owed to the federal government for which regular payments are being made. The monthly payment must be included in the monthly debt obligation and DTI ratio. Documentation from the federal agency evidencing the repayment agreement and verification that the payments are being made on time must be provided. See Chapter 2A Loan Eligibility for complete eligibility when the borrower has federal debt.

(g) Home Equity Lines of Credit When the subject property has a home equity line of credit that has a balance and monthly payment, that payment must be considered part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs to be included in the recurring debt obligations. If there are other open home equity lines of credit on the credit report with a zero balance, no monthly payment needs to be included in the recurring debt obligations.

(h) Installment Debt Installment debt not secured by a financial asset, including student loans, automobile loans, and timeshares, etc., must be included in the borrower's monthly debt obligations unless all of the following exist:

- There are fewer than ten (10) months remaining as of the date of closing; and
- The cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income.

An installment debt with fewer than ten (10) monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations.

If the credit report does not include a monthly payment or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the payment on the loan agreement or payment statement may be used if properly documented.

A timeshare is considered an installment loan and not a mortgage debt.

(i) Deferred Installment Debt Deferred debt, excluding student loans, must be included in the DTI ratio. All of the following documentation must be provided:

- Written documentation of deferral from the creditor;
- Evidence of the outstanding balance;
- Evidence of the terms of the liability; and
- Evidence of the anticipated monthly payment obligation, if available.

The actual monthly payment must be used, when available. If the actual payment is not available, use the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

For information about deferred student loans, see 2H.2(q) Student Loans below.

(ii) Pay Off or Pay Down of Debt Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Paying off installment debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented. Paying down installment debt to fewer than ten months to qualify for the mortgage is not permitted.

(i) Lease Payments Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

(j) Loans Secured by Financial Assets Loans secured against deposited funds (signature loans, cash value of life insurance policies, 401(k) accounts, etc.) where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes. If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves. See Chapter 2G Assets, 2G.3(l) Loans Secured by Financial Assets for documentation requirements.

(k) Mortgage Assumptions When the borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability (PITI) that must be included in the borrower's recurring monthly debt obligations unless there is documentation to evidence the co-obligor has been making payments for the last 12 consecutive months and the account is current with no history of delinquency during that time. All of the following documentation must be provided:

- Assumption agreement or agreement creating the contingent liability; and
- Deed showing transfer of title out of the borrower's name.

(l) Negative Income Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

(m) Non-Borrowing Spouse Debt in Community Property States Non-borrowing spouse debt refers to debt owed by a spouse that are not owed by, or in the name of the borrower. A non-borrowing spouse may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, they are not considered a borrower for underwriting purposes and need not sign the loan application or Note. In all other cases, the non-borrowing spouse must not be on the security instrument or take title to the subject property. If the property is located in a community property state, or the borrower resides in a community property state, the following requirements must be complied with:

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the DTI ratio. The credit report

for the non-borrowing spouse should not be a joint report, it should be obtained separately;

- Obtain and document authorization from the non-borrowing spouse to pull a separate credit report. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected;
- Credit history of the non-borrowing spouse should not be the sole basis for declining the loan;
- Even if the non-borrowing spouse does not have a social security number, the credit reporting company should verify that the non-borrowing spouse has no credit history and no public records against them;
- Include the actual monthly payment obligation of the non-borrowing spouse in the DTI ratio calculation. If the actual monthly payment is not available, calculate the monthly obligation by using the terms of the debt or 5% of outstanding balance;
- All open judgments and liens, including those of the non-borrowing spouse, must be resolved prior to closing;
- Disputed debts of the non-borrowing spouse need not be counted with acceptable documentation of the dispute;
- The credit report is for the purpose of establishing debt only and is not submitted to TOTAL for the purpose of credit evaluation;
- The credit for the non-borrowing spouse may be traditional or non-traditional; and
- The loan file must reference the specific state law that justifies the exclusion of any debt from consideration.

Known Community Property States	Community Property State Laws are Effective When	Include Debts in DTI	Exclude Debts from DTI if Acquired Prior to Marriage
Arizona	Married and domicile in same state	Yes	No
California	Married and domicile in same state	Yes	No
Idaho	Married and domicile in same state	Yes	No
Louisiana	Married and domicile in same state	Yes	No
Nevada	Married and domicile in same state	Yes	Yes
New Mexico	Married and domicile in same state	Yes	No
Texas	Married and domicile in same state	Yes	Yes
Washington	Married and domicile in same state	Yes	Yes
Wisconsin	Married and domicile in same state	Yes	Yes

(n) Other Real Estate Owned Mortgage payments and related expenses must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction), or a property retained as a second home or investment property. Determine the aggregate net negative rental income from all rental properties for qualification. When the loan application reflects that the borrower owns other real estate free and clear of mortgage liens or encumbrances, documentation must be provided to evidence free and clear status of the property. The borrower must qualify with taxes, property insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

(o) Private Savings Clubs Private savings clubs are a non-traditional method of saving by making deposits into a member-managed resource pool. If the borrower is obligated to make ongoing contributions under the pooled savings agreement, the monthly payment amount must be included in the borrower's monthly debt obligations. The establishment and duration of the borrower's membership in the club and the amount of the required contribution must be documented.

(p) Revolving Charges/Lines of Credit Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These trade lines include credit cards, department store charge cards, and personal lines of credit. If the credit report does not show a required minimum payment amount and the current account statement is not provided, use 5% of the outstanding balance as the recurring monthly debt obligation.

(i) Payoff Revolving Debt for Qualification Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- For purchase and rate & term refinance transactions, the account must be paid in full (paying down to zero balance) prior to closing. Provide documentation from the creditor and/or updated credit supplement prior to closing showing the account paid in full.
- For cash-out refinance transactions underwritten by Newrez, paying off revolving debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing.
- Document funds came from an acceptable source and no new debt was incurred. The account does not have to be closed.

(ii) Open 30-Day Charge Accounts A 30-day charge account refers to a credit arrangement that requires payment in full on the account every month. Verification must be provided to evidence that 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 monthly debt obligations. If the credit report reflects any late payments in the last 12 months, 5% of the outstanding balance must be calculated and included in the DTI ratio. The credit report must be used to document that the borrower has paid the balance each month for the prior 12 months and to document the outstanding balance. There must be sufficient funds to pay off the balance in excess of the funds and reserves required to close the loan.

(q) Student Loans All student loans must be included in the DTI, regardless of the payment type or status of payments. If the payment used for the monthly obligation is less than the monthly reported on the credit report, obtain the following from the student loan servicer:

- Written documentation of the actual monthly payment;
- Payment status;
- Evidence of the outstanding balance; and
- Evidence of the terms of the student loan from the creditor.

To calculate the monthly payment, use one of the following:

- The payment reported on the credit report; or the actual documented payment, when the payment amount is above zero; or
- 0.5% of the outstanding balance, when the monthly payment reported on the credit report is zero.

The monthly payment may be excluded in the DTI when documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

(r) Undisclosed Debt Refer to Chapter 2F Credit; 2F.6(b) Undisclosed Debt Other than a Mortgage and 2F.6(c) and Undisclosed Mortgage Debt.

Obligations Not Considered Debt

Obligations not considered debt include:

- Automatic deductions from savings, when not associated with another type of obligation
- Charge-off accounts
- Childcare
- Collateralized loans secured by depository accounts
- Commuting costs
- Federal, state, and local taxes, if not delinquent and no payments are required
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- Insurance, other than property insurance
- Medical collections
- Open accounts with zero balances
- Utilities
- Union dues
- Voluntary recurring debt or deductions, when not associated with another type of obligation

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Employment and Income

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- Base Pay, Bonus, Overtime, Commission Income, and Tip Income
- Rental Income
- Unacceptable Sources of Income
- Stable Monthly Income
- Self-Employed Income
- Other Income Sources

Income Documentation

(a) IRS Form 4506-C

(i) General Requirements

- Borrower(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, to obtain income information when qualifying income is documented **with handwritten paystubs, for an arm’s length transaction or at the underwriter’s discretion.**
- IRS Form 4506-C can be used to obtain tax transcripts for multiple years or tax periods, but only one (1) tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
- The signed Form 4506-C must include authorization for tax transcripts to coincide with the years of tax returns obtained for qualification.
- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.
 - The form must be signed exactly as the borrowers' name appears on the original return.
 - If a borrower's name changed, the borrower must sign with both the current name and changed name.

(ii) Prior to Closing Requirements IRS Form 4506-C for business return(s) must be signed at closing when the business returns are used for qualification.

(iii) At Closing Requirements

- IRS Form 4506-C for each borrower whose income is used to qualify, regardless of income type (must be signed at closing).
- IRS Form 4506-C must be an original signature and cannot be e-signed.

It is necessary to complete three (3) IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two (2) years individual income tax returns and two (2) years business tax returns for two (2) separate businesses. One (1) Form 4506-C will be required for the individual return and a separate Form 4506-C for each business return.

(iv) Completing IRS Form 4506-C

Line #	Individual Tax Returns	Business Tax Returns
1-4.	Complete with appropriate borrower information. The address completed on the form must be the same as the address on the tax return even if not the borrower's current address.	
5.	a. IVES Participant name, address and SOR mailbox ID b. Customer File Number	
6.	Transcript Requested	Enter Form 1040
		Enter Form 1120, 1065, etc., as applicable

	a. Return Transcript	Check Box and/or 6c	
	b. Account Transcript	Leave Blank	
	c. Record of Account	Check Box and/or 6a	
7.	Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript	Check Box 7	Leave Blank
8.	Year or period requested	Complete for the number of years required to document income	
<p>The IRS will process the request if the IRS Form 4506-C for the business includes the following:</p> <ul style="list-style-type: none"> • 1120: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ◦ President ◦ Vice President ◦ Secretary ◦ Treasurer ◦ Assistant Treasurer ◦ Chief Accounting Officer • 1120S: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ◦ President ◦ Vice President ◦ Secretary ◦ Treasurer ◦ Managing Member • 1065: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ◦ Partner ◦ Limited Partner 			

(b) Tax Transcripts Refer to the Tax Transcript Policy.

(c) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee;
 - Gross earnings for the current pay period and year-to-date earnings;
 - Pay period;
 - Employer name; and
 - Date issued.
- If the borrower is paid hourly, the number of hours must be noted on the paystub,
- Paystubs must be computer-generated or typed by the employer. If the employer does not provide a computer-generated or typed paystub, the most recent years' income tax returns or tax transcripts are required with a written verification of employment completed in its entirety;
- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor;
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information - for example, by including the information in the Internet banner;
- Paystubs that are issued electronically, via e-mail, or downloaded from the Internet are acceptable and must include the following:
 - Internet Uniform Resource Locator (URL Internet address) identifying the source of the information;
 - Date and time printed;
 - Verbal verification of employment;
 - The documentation must also contain information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification; and
 - Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

(d) W-2 Form

- The W-2 must:
 - Clearly identify the borrower as the employee and the employer's name;
 - Be the employee copy provided by the employer;
 - Be computer-generated or type by the employer;
 - Not have any alterations; and
 - Be the original source of the information from a third-party, such as the borrower's human resources department, personnel, office, payroll department, company's payroll vendor, or supervisor.
- The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned in the previous calendar year
 - Year-end paystub(s) or military Leave and Earnings Statement; and
 - W-2 transcript(s).

(e) Written Verification of Employment (WVOE) A written verification of employment must contain:

- Dates of employment;

- Position;
- Prospect of continued employment, when available;
- Probability of continued employment must be verified as good or better and evaluated based on the following:
 - Past employment record;
 - Qualifications for the position;
 - Previous training and education; and
 - Employer's confirmation of continued employment.
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week; and
- Additional salary information, which includes itemized bonus, overtime, or tip income, if applicable.

The borrower may not request completion of the written verification of employment directly from his or her employer.

Direct verification by a third-party employment verification is acceptable as long as:

- The borrower provided authorization to use third-party verification;
- The verified information provided conforms with the information that would be on a VOE or paystub; and
- The completion date follows the allowable age of documentation.

(f) Verbal Confirmation of Employment Verbal confirmation of the borrower's current employment status is required for each borrower. If a verbal confirmation cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same time frame as a verbal confirmation. To comply with a verbal confirmation of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:

Verbal Confirmation of Employment	
Wage Earner	<p>A verbal confirmation of employment must be completed within ten (10) calendar days from the Note date and documented with the following information:</p> <ul style="list-style-type: none"> • Date of contact; • Borrower's employment status and job title; • Name, phone number and title of individual contacted at entity; • Name of the entity contacted; • Name and title of associate contacting employer; and • Method and source used to obtain the phone number. <p>If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.) the Employment Verification between employer and third-party must be within 35 calendar days of the Note date.</p>
Self-Employed Borrower	<ul style="list-style-type: none"> • Verification of the existence of a self-employed borrower's business is required within 30 calendar days from the Note date. • Verification of the existence of the business from a third party is required. A borrower's website is not acceptable as third-party verification. • Acceptable third party sources include, but are not limited to: <ul style="list-style-type: none"> ◦ CPA (must be arm's length), regulatory agency, or the applicable licensing agency; or ◦ By verifying a phone directory listing and address for the borrower's business using a telephone book, the Intranet, directory assistance, Better Business Bureau. <p>Internet source. If using an internet source, such as Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence.</p> <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> <ul style="list-style-type: none"> • Name and address of business; • Name of individual and entity contacted; • Date of verification; and • Name and title of associate who completed the verification. <p>Alternative documentation: Current and active business insurance policy or Errors and Omissions policy, documentation showing registration for remitting sales tax, supplier invoices, etc.</p>

(g) Tax Returns The borrower must sign each tax return unless one (1) of the following is obtained:

- Evidence of tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent);
- Transcripts that validate the unsigned tax return(s); or
- Completed IRS Form 4506-C, signed by the borrower for the year in question (DU only).

The following standards apply with using Income Tax Returns to verify income.

Form	Requirements
Individual Income Tax Returns (Form	<ul style="list-style-type: none"> • Complete with all schedules and W-2s, 1099s, K-1s, etc.

1040)	<ul style="list-style-type: none"> Borrower's copy filed with the IRS
Business Income Tax Returns (Form 1120, 1120S, 1065)	<ul style="list-style-type: none"> Complete with all schedules and W-2s, 1099s, K-1s, etc. Borrower's copy filed with the IRS
Amended Income Tax Returns Filed Prior to the Application Date	Amended tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided.
Amended Income Tax Returns Filed After the Application Date	<p>When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted.</p> <p>The following documentation should be reviewed when income from the amended return is required:</p> <ul style="list-style-type: none"> A letter of explanation regarding the reason for the re-file; Evidence of filing; and Payment and the ability to pay the tax if the check has not cancelled. <p>The underwriter must provide justification and commentary regarding its use.</p>
IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns	If IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary.
Use of IRS Forms to Obtain Individual Income Tax Information	<ul style="list-style-type: none"> Tax Return Transcripts may be used in lieu of obtaining the income tax returns as long as they contain all of the information that would be included on the tax return. In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower.

(h) Allowable Age of Individual Income Tax Returns

IF Today's Date is...	THEN the Most Recent Years' Tax Return would be...
February 18, 2022	2020
May 18, 2022	2021
December 15, 2022	2021

The below table provides the allowable age of individual income tax returns depending on the application and Note date.

Allowable age of Individual Tax Returns based on application date for borrowers whose income must be documented with tax returns (borrowers self-employed and non-self-employed).

- Self-employed income;
- Employment by a family member or an interested party to the purchase transaction;
- Rental income from an investment property; and
- Other income sources as identified in the chapter.

Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.)

Application Date	Note Date	Documentation
Before	Before	2021 Tax Return Filed
May 17, 2022	May 31, 2022	Most recent filed tax return(s) per AUS <ul style="list-style-type: none"> 2021; or 2020 and 2019 2021 Tax Return Not Filed Most recent filed tax return(s) per AUS <ul style="list-style-type: none"> 2020; or 2020 and 2019
On or After	Before	2021 Tax Return Filed
May 17, 2022	May 31, 2022	Most recent year(s) tax returns per AUS
All	May 31, 2022, through October 31, 2022	<ul style="list-style-type: none"> 2021; or 2021 and 2020 2021 Tax Return Not Filed

		<p>Most recent year(s) tax returns per AUS</p> <ul style="list-style-type: none"> • 2020; or • 2020 and 2019 <p>And all of the following</p> <ul style="list-style-type: none"> • Copy of Application for Automatic Extension of Time to File 2021 U.S. Individual Income Tax Return (IRS Form 4868) • Tax transcripts confirming “No Transcripts Available” for 2021
All	On or After November 1, 2022	<p>Most recent year(s) tax returns per AUS</p> <ul style="list-style-type: none"> • 2021; or • 2020 and 2019 • Use of a Tax Extension is not permitted
See the applicable section of this chapter for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with tax returns.		

Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with all employers. Borrowers with frequent job changes who earn a consistent and predictable income and are able to pay debt obligations are considered to have a reliable flow of income for loan qualification. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

Income that is legally derived under Federal law and properly reported as income on the borrower's tax returns (when required) may be considered an acceptable source of qualifying income. Income that is legally derived under State law, but not Federal law, may not be considered an acceptable source of qualifying income.

Known economic conditions, such as plant closings, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration.

(a) Continuity of Income The continuity of receipt of qualifying income plays a critical role in determining a reliable flow of income. Unless there is knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented, it may be concluded that the income is stable and likely to continue. No additional information need be requested from the borrower. If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, document the likelihood of continued receipt of the income for at least three (3) years.

(b) Variable Income For employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate must be used to calculate effective income. For employees who are paid hourly and whose hours vary, the income must be averaged over the past two (2) years. If an increase in pay can be documented, the most recent 12-month average of hours at the current pay rate may be used.

(c) History of Receipt A minimum history of two (2) years of receipt of income is recommended. Income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history. Gaps of employment must be considered in the history of receipt of income and stability of the employment and income. Positive factors will vary greatly from loan to loan and are therefore impossible to define. Each loan must be reviewed individually to determine the acceptability of the use of the shorter income history. A characteristic considered positive for one loan does not necessarily make it a positive factor for another loan. For example, a significant down payment made from the borrower's own funds may be considered a positive factor, while a significant down payment made from gift funds may not be considered a positive factor. If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than two (2) years.

Frequent Job Changes	<p>If the borrower has changed employers more than three (3) times in the previous 12-month period, or has changed lines of work, the stability of the borrower's income must be verified and documented with one (1) of the following:</p> <ul style="list-style-type: none"> • Transcripts of training and education demonstrating qualification for the new position; or • Employment documentation evidencing continual increases in income and/or benefits. <p>Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers (such as technology companies or union trades).</p>
Employment Gaps	<p>The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of employment.</p> <p>A borrower may have recently returned to the work force after an extended absence. For example, employment for a borrower who took several years off to raise children and then returned to the work force may be considered effective and stable provided the following are met:</p> <ul style="list-style-type: none"> • The borrower has been employed in his or her current job for six (6) months or more at the time of case number assignment; and • A two-year work history prior to the absence from the work force is documented. <p>Exception Due to COVID-10 Related Economic Event</p>

	<ul style="list-style-type: none"> • Non-Self-Employment Income <ul style="list-style-type: none"> ◦ Borrower has been employed in the current job or same line of work for at least one (1) month at the time of case number assignment; or ◦ Borrower has been employed in a different job or line of work for at least three (3) months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment, using traditional or alternative employment verification. ◦ Written Verification(s) of Employment identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours is required. <p>Self-Employment Income</p> <ul style="list-style-type: none"> • The months where the business was closed, or income was reduced may be excluded when calculating income.
Furloughed Borrower	<ul style="list-style-type: none"> • Borrowers in a state with an active furlough policy must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the employer approves the source. • Full pay may be used if there is evidence from the employer or third party documentation that the furlough will end within the next 60 days and there is no discussion to extend the furlough.
Government Shutdown	For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as effective income.

Base Pay, Bonus, Overtime, Commission Income, and Tip Income

(a) Base Pay (Salary or Hourly) Borrowers who receive a base pay receive a consistent wage or salary from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semimonthly basis. Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, Third-Party Verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.
- Borrowers Paid Hourly
 - Employees paid hourly and whose hours do not vary use the current hourly rate to calculate income.
 - Employees paid hourly and whose hours vary (variable income): average income over the previous two (2) years. If an increase in pay rate can be documented, use the most recent 12-month average of the hours at the current pay rate.

(i) Exception Due to COVID-19 Related Economic Event for Salaried and Hourly Employees

- Salaried Borrowers: Use the current salary to calculate income.
- Borrowers Paid Hourly
 - Employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate must be used to calculate income.
 - Employees who are paid hourly and whose hours vary, the borrower's currently hourly rate must be used to calculate the effective income by using the lesser of:
 - The average of the income in accordance with the hourly standard section listed above for the time period prior to the COVID-19 Related Economic Event; or
 - The average of the income earned since the COVID-19 Related Economic Event.

(b) Second-Job Employment Second-job employment refers to employment that is not the borrower's primary employment. The second job is in addition to the borrower's primary employment. Second-job or multiple-job employment refers to employment that is not the borrower's primary employment and is generally less than 40 hours per week. The second job is in addition to the borrower's primary employment. A borrower must have at least two (2) years, uninterrupted history on all second or multiple jobs and the current position is reasonably likely to continue to consider effective income. Income must be averaged over the previous two (2) years to calculate effective income. If an increase in pay rate is documented, a 12 month average of hours at the current pay rate may be used.

(c) Part-time to Full-time Employment All of the following must be provided for a borrower who has historically been employed on a part-time basis and indicates that he or she will now be working full-time:

- Written confirmation from the employer that the borrower is working full-time;
- Paystub evidencing the borrower's full-time pay; and
- Written explanation from the borrower explaining the reason for switching from part-time employment.

Likelihood of continuance must be considered.

(d) Past Employment If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of case number assignment, one (1) or a combination of the following must be provided:

- Third-party verification of employment; and/or
- W-2s, VOEs, or evidence supporting enrollment in school or the military during the most recent two (2) years.

(e) Bonus, Overtime, and Tip Income Bonus, overtime, and tip income is variable compensation in addition to any employee's straight salary or hourly wage and is considered effective income if the borrower has received this income for the past two (2) years. Bonus, overtime, and tip income that has been received for less than two (2) years may be considered effective income if it is documented that the income has been consistently earned over a period of not less than 12 months and it is reasonably likely to continue. Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, third-party verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.

Obtain a Written Verification of Employment, employer letter or equivalent itemizing bonus, overtime, or tip income, as needed.

Effective income must be calculated as the lesser of:

- The average income earned over the prior two (2) years (if less than two (2) years, the length of time the income has been earned); or
- The average earned over the previous year.

(i) Exception Due to COVID-19 Related Economic Event for Bonus, Overtime and Tip Income Calculate the income by using the lesser of:

- The Standard Guideline above using income prior to the COVID-19 Related Economic Event; or
- The average of bonus, overtime or tip income earned since returning to work after the COVID-19 Related Economic Event.

(f) Commission Income Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be acceptable if the income has been received for at least one (1) year prior in the same or similar line of work and it is reasonably likely to continue. Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, third-party verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.

Obtain a Written Verification of Employment, employer letter or equivalent itemizing bonus, overtime, or tip income, as needed.

(i) Exception Due to COVID-19 Related Economic Event for Commission Income Calculate commission by using the lesser of:

- The Standard Guideline above using income prior to the COVID-19 Related Economic Event; or
- The average of the commission income earned since returning to work after the COVID-19 Related Economic Event.

(g) Military Income Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarter's allowance, and proficiency pay may be counted as income if they are verified as regular and continuous. Obtain a copy of the borrower's military Leave and Earnings Statement (LES) to verify amount of income and the Expiration Term of Service date. If the Expiration Term of Service date is within the first 12 months of the mortgage, this income may only be considered if the borrower confirms their intent to continue military service.

Self-Employed Income

A self-employed borrower is an individual who has 25% or greater ownership interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, etc., or individuals relying on investments as their primary source of income.

- Income from self-employment may be considered effective income if the borrower has been self-employed operating the same business in the same location for at least two (2) years.
- Self-employment income received for 12 to 24 months may be considered effective income if the borrower was previously employed in the same line of work in which the borrower is self-employed or a related occupation for at least two (2) years. Self-employment of less than one (1) year will not be considered for qualifying purposes.
- When a borrower uses funds for down payment, closing costs or reserves from his or her self-employed business, the impact must be considered in the analysis of the business. See Chapter 2G Assets, 2G.4(b) Business Funds for more information.
- Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from the business shows a greater than 20% decline in effective income over the analysis period, the mortgage must be downgraded and manually underwritten.

(a) Exception Due to COVID-19 Related Economic Event Self-employment income may be acceptable if:

- The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two (2) years.
- The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one (1) and two (2) years, the income may be considered 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 (2) years.

For self-employed borrowers with a COVID-19 Related Economic Event that have since regained income at a level less than 80% of their income prior to the COVID-19 Related Economic Event, the loan must be downgraded and manually underwritten.

(b) Refer and Manual Underwrite/Downgrade Self-employment income may be considered stable after a 20% reduction with:

- Documentation that 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 using the reduced income.

(c) Exception Due to COVID-19 Related Economic Event Self-employment income may be considered stable after a 20% reduction with:

- Documentation that the reduction in income was the result of a COVID-19 Related Economic Event;
- The borrower can demonstrate the income has been stable or increasing for a minimum of three (3) months; and
- The borrower qualifies using the reduced income.

(d) Income Documentation The following income documentation is required for self-employed borrowers:

- Most recent two (2) years' individual income tax returns;
- Most recent two (2) years' business tax returns unless the following is met:
 - Individual income tax returns show increasing self-employment income over the past two (2) years;
 - Funds to close are not coming from business accounts; and
 - The transaction is not a cash-out refinance.
- A year-to-date profit and loss statement (P&L) and balance sheet is required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed. A balance sheet is not required for self-employed borrowers filing Schedule C income.
- If the loan is being manually underwritten, a business credit report for all corporations and S Corporations is required.

If the self-employed income used to qualify the borrower exceeds the two (2)-year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

The underwriter may request additional information such as business license, if necessary, to further support the determination of the stability of the borrower's income.

(e) Exception Due to COVID-19 Related Economic Event Self-employed borrowers who, due to a COVID-19 Related Economic Event, experienced a reduction of income, must provide the standard income documentation above and all of the following:

- Letter of explanation for the time period of income loss or reduction;
- Most recent two (2) years' business tax returns (may not be waived);
- And either of the following:
 - An audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
 - An unaudited year-to-date profit and loss statement, signed by the borrower, up to and including the most recent month preceding the case number assignment date, and
 - Three (3) of the most recent business bank statements no older than the latest three (3) months represented on the year-to-date profit and loss statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date profit and loss statement.

(f) Analysis and Calculation of Self-Employed Income Self-employment income is calculated by using the lesser of:

- The average gross self-employment income earned over the previous two (2) years; or
- The average gross self-employment income earned over the previous one (1) year.

(i) Exception Due to COVID-19 Related Economic Event Income Calculation Self-employed borrowers with a COVID-19 Related Economic Event that have regained income at a level greater than or equal to 80% of their pre-COVID-19 income, for a minimum of three (3) months, must calculate gross self-employment income by using the lesser of:

- The average gross self-employment income earned over the previous two (2) years prior to the COVID-19 Related Economic Event; or
- The average gross self-employment income earned over the previous three (3) months after the COVID-19 Related Economic Event.

Negative income must be subtracted from the borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

If the self-employed income used to qualify the borrower exceeds the two (2) year average of tax returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

(g) Analyzing the IRS 1040 Individual Income Tax Return

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	<p>An amount shown under this heading may indicate that the individual</p> <ul style="list-style-type: none"> • is a salaried employee of a corporation; or • has other sources of income. <p>This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's gross income.</p>
Business Income and Loss (Schedule C)	<ul style="list-style-type: none"> • Sole proprietorship income calculated on Schedule C is business income. • Depreciation, depletion, amortization, and casualty losses may be added back to the gross income.
Business Use of Home	Mortgage interest, MIP, real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.
Rents, Royalties, Partnerships (Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.
Capital Gain and Losses (Schedule D)	<ul style="list-style-type: none"> • Capital gains or losses generally occur only one time and should not be considered when determining

	<p>Effective Income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.</p> <ul style="list-style-type: none"> • Three (3) years' tax returns are required to evaluate an earnings trend. If the trend <ul style="list-style-type: none"> ◦ results in a gain, it may be added as income; or ◦ consistently shows a loss, it must be deducted from the total income.
Interest and Dividend Income (Schedule B)	<ul style="list-style-type: none"> • This taxable/tax-exempt income may be added back to the adjusted gross income only if it <ul style="list-style-type: none"> ◦ has been received for the past two (2) years; and ◦ is expected to continue. • If the asset providing the interest and dividend income will be liquidated for cash to close, that portion must be deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.
Farm Income or Loss (Schedule F)	Any depreciation shown on Schedule F may be added back to the gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The nontaxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for at least first three (3) years.
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are <ul style="list-style-type: none"> • IRA and Keogh retirement deductions; or • Penalties on early withdrawal of savings health insurance deductions, and alimony payments.

(h) Analyzing IRS Form 1120, U.S. Corporation Income Tax Return A Corporation refers to a state-chartered business owned by its stockholders. To determine the borrower's income, the adjusted business income must be multiplied by the Borrower's percentage of ownership in the business. Corporate compensation to the officers, in proportion to the percentage of ownership, is shown on the corporate tax return (IRS Form 1120), and individual tax returns. If the borrower's percentage of ownership does not appear on the tax returns, obtain the information from the corporations' accountant, along with evidence that the borrower has the right to any compensation. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income.
Fiscal Year vs. Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

(i) Analyzing IRS Form 1120S, U.S. Income Tax Return for an S Corporation An S Corporation refers to a small start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership. Income for owners of S Corporations comes from W-2 wages and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's individual IRS Form 1040. Depreciation and depletion may be added back to income in proportion to the Borrower's percentage of ownership in the corporation. The borrower's income must be reduced proportionately by the total obligations payable by the corporation in less than one (1) year.

(j) Analyzing IRS Form 1065, U.S. Return of Partnership Income A Partnership refers to when two (2) or more individuals form a business, and share in profits, losses, and responsibility for running the company. Each partner pays taxes on their proportionate share of the partnership's net income. Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to the income in proportion to the borrower's share of the income. The borrower's income must be reduced proportionately by the total obligation payable by the partnership in less than (1) year.

Rental Income

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three (3) years. For each income source used to qualify the borrower, determine that both the source and the amount of the income are stable.

Rental income from second homes cannot be used to qualify.

a Rental Income from Subject Property

History of Receiving Rental Income	Limited or No History of Rental Income
<p>When the borrower has a history of receiving rental income from the subject property:</p> <ul style="list-style-type: none"> • Most recent two (2) years' individual income tax returns including Schedule E; and • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.). 	<p>When the borrower does not have a history of rental income from the subject since the previous tax filing:</p> <ul style="list-style-type: none"> • Single-Family Comparable Rent Schedule (Form 1007) or Small Residential Income Property Appraisal Report (Form 1025); • Operating Income Statement (Form 216/998) showing fair market rent; and • Prospective lease, if available. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.).
<p>When the borrower has a history of receiving rental income from the subject property, obtain the most recent two (2) years' individual income tax returns including Schedule E.</p>	<p>When the borrower does not have a history of receiving rental income, including a property being vacated, since the previous tax filing, use the lesser of:</p>

	<ul style="list-style-type: none"> • The monthly income reported on the Operating Income Statement (Form 216/998) showing fair market rent; or • 75% of the lesser of: <ul style="list-style-type: none"> ◦ The fair market rent reported by the appraiser; or ◦ The lease or other rental agreement
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b Rental Income from Other Real Estate Owned If rental income will be received from the conversion of the borrower's primary residence to an investment property, the following is required:

- The borrower must be relocating more than 100 miles from the current primary residence;
- A fully executed, 12-month lease; and
- Evidence of the most recent months' receipt of rental income for the property.

History of Receiving Rental Income	Limited or No History of Rental Income
<p>When the borrower has a history of receiving rental income from the subject property:</p> <ul style="list-style-type: none"> • Most recent two (2) years' individual income tax returns including Schedule E; and • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.). 	<p>When the borrower does not have a history of rental income from the subject since the previous tax filing, including property being vacated by the borrower, obtain an appraisal evidencing market rent and that the borrower has at least 25% equity in the property. The appraisal does not have to be completed by an FHA Roster Appraiser.</p> <p>Document rental income with:</p> <ul style="list-style-type: none"> • Single-Family Comparable Rent Schedule (Form 1007) or Small Residential Income Property Appraisal Report (Form 1025); • Operating Income Statement (Form 216/998) showing fair market rent; and • Prospective lease, if available. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.).

Income Calculation	
<ul style="list-style-type: none"> • Average the amount shown on Schedule E. • Add back depreciation to the net income or loss. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.). 	<p>Deduct the PITI from the lesser of:</p> <ul style="list-style-type: none"> • The monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or • 75% of the lesser of: <ul style="list-style-type: none"> ◦ fair market rent reported by the appraiser; or ◦ the rent reflected in the lease or other rental agreement. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.).

c Treatment of Income or Loss

Two-Unit Subject Property	<ul style="list-style-type: none"> • Net subject property rental income must be added to the borrower's total monthly income. • The total mortgage payment may not be reduced by the net subject property rental income.
Three- to Four-Unit Subject Property	<ul style="list-style-type: none"> • Net self-sufficiency rental income refers to the rental income produced by the subject property over and above the PITI. • The PITI divided by the monthly net self-sufficiency rental income may not exceed 100%. • Net self-sufficiency rental income is calculated by using the appraisers estimate of fair market rent from all units, including the borrower occupies, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market rent.
Rental Income/Loss from Other Property Owned	<ul style="list-style-type: none"> • If the monthly rental income less the full PITI is positive, it must be added to the total monthly income. • If the monthly rental income less the full PITI is negative, the monthly net rental loss must be added to the borrower's total monthly obligations. • The full PITI for the rental property is factored into the amount of the net rental income (or loss), therefore it should not be counted as a monthly obligation. It must be reported on the loan application. • The full monthly payment for the borrower's primary residence must be counted as a monthly obligation.

Other Income Sources

See 2I.1(h) Allowable Age of Individual Tax Returns based on application date and available tax transcripts for borrowers whose income is based on tax returns (borrowers self-employed and non -self-employed) or allowable age of tax transcripts based on application date and available tax transcripts for borrowers whose income is not based on tax returns (borrowers not self-employed).

- Alimony and Child Support Payments
- Annuity Income
- Auto Allowances and Expense Account Payments

- Boarder Income
- Capital Gains and Losses
- Disability Benefits
- Employer Differential
- Employment by a Family-Owned Business
- Expected Income
- Foreign Income Earned by a U.S. Citizen
- Foster Care Income
- Hemp Income
- Interest and Dividend Income
- Mortgage Credit Certificates
- Nontaxable Income
- Notes Receivable Income
- Public Assistance
- Retirement Income, Pension, and IRA Distribution
- Seasonal Income
- Social Security Income
- Temporary Help Services
- Temporary Leave
- Trust Income
- Unemployment Income
- Union Members
- VA Benefits

(a) Alimony and Child Support Payments Alimony and child support payments will be considered provided the payment terms confirm that the income will continue for at least three (3) years from the date of the closing. The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined:

- If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance; and
- The duration of the alimony payments must be determined for continuance.

Income may not be considered stable when a borrower has been receiving full, regular, and timely payments for less than the required time or has been receiving full or partial payments on an inconsistent or sporadic basis.

One (1) of the following must be provided in addition to the documentation requirements below for court-ordered or voluntary payments:

- A copy of a written legal agreement or final divorce decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received; or
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.

Court-ordered Payments	<p>When using a final divorce decree, legal separation agreement, or court order, one (1) of the following must be provided to document receipt for the most recent three (3) months:</p> <ul style="list-style-type: none"> • Bank statements or deposits slips showing regular deposit of funds; • Cancelled checks; • Documentation from child support agency; and • Court records.
Voluntary Payments	<p>When using evidence of voluntary payments, one (1) of the following must be provided to document receipt for the most recent 12 months:</p> <ul style="list-style-type: none"> • Bank statements or deposit slips showing regular deposit of funds; • Most recent individual income tax returns with all schedules; or • Cancelled checks. <p>If the voluntary payments have been received consistently (consistent dollar amount as opposed to a variable payment amount each month) for the most recent three (3) months, the current payment may be used. If the voluntary payments have not been received consistently for the most recent three (3) months, an average of the income received over the previous two (2) years must be developed.</p>

(b) Annuity Income All of the following must be provided to document annuity income:

- A copy of the legal agreement establishing the annuity and guaranteeing the continuation for at least three (3) years from closing; and
- Most recent bank statement or transaction history from the bank to document receipt of the annuity.

Any assets used as funds to close must be subtracted from the borrower's liquid assets prior to calculating the annuity income.

(c) Automobile Allowance/Expense Account Payments Automobile allowance paid to cover specific expenses related to a borrower's employment may be an acceptable source of income if it has been received for the past two (2) years. Use the full amount of the automobile allowance as effective income.

(d) Boarder Income Boarder income is income received from an individual renting space inside the borrower's dwelling unit. This income is only acceptable if the borrower has a two (2)-year history of receiving boarder income that is shown on their tax returns and is currently receiving boarder income. All of the following must be provided:

- Most recent two (2) years individual income tax returns;
- Current lease; and
- For purchase transactions, obtain a copy of the executed written agreement documenting the boarder's intent to continue boarding with the borrower. Income is calculated by using the lesser of a two (2) year average or current lease.

(e) Capital Gains and Losses Capital gains or losses generally occur only one time and therefore should not be considered as either a gain or loss in determining effective income. However, if there is a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. The most recent three (3) years' individual income tax returns with all schedules is required. If the trend

- results in a gain, it may be added as effective income.
- consistently shows a loss, it must be deducted from the total income.

(f) Disability Benefits Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider. Obtain documentation that establishes, verified and documents award benefits to the borrower. If any disability income is due to expire within three (3) years from the date of application, the income not eligible. Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

Income Type	Requirements
Social Security Disability	For Social Security Disability income, including Supplemental Security Income (SSI), obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the borrower, and one (1) of the following: <ul style="list-style-type: none"> • Individual income tax returns; • Most recent bank statement evidencing receipt of income from the SSA; • Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or • Copy of the borrower’s form SSA-1099/1042S, Social Security Benefit Statement.
VA Disability	Obtain a copy of the Veteran’s last Benefits Letter showing the amount of the assistance, and one (1) of the following: <ul style="list-style-type: none"> • Individual income tax returns; or • Most recent bank statement evidencing receipt of income from the VA.
Private Disability	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 (1) of the following: <ul style="list-style-type: none"> • Individual income tax returns; or • Most recent bank statement evidencing receipt of income from the insurance provider.

(g) Employer Differential If the employer subsidizes a borrower’s mortgage payment through direct payments, the amount of the payments is considered gross income.

- The payments cannot be used to offset the mortgage payment directly; and
- Mortgage differential payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.

(h) Employment by a Family-Owned Business A borrower employed by a family member or employed by a family-owned business may be eligible. There must be verification and documentation that the borrower is not an owner of the business. Expected Income from a family held business is not permitted. A corporate tax return, Schedule K-1, or official letter from CPA indicating ownership percentage is required and all of the following:

- Most recent, computer-generated paystub. If the paystub is not computer generated, the accountant must provide a signed payroll ledger.
- Most recent two (2) years' W2s; and
- Most recent two (2) years' individual income tax returns, including all schedules.

See the Exception Due to COVID-19 Related Economic Event for income calculations based on the applicable income type received.

(i) Expected Income Expected income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement income. Expected income must be received within 60 days after closing. Expected income from a family-owned business is not permitted. All of the following is required:

- Employer to verify and document the existence and amount of expected income, in writing, and that it is guaranteed to begin within 60 days of the Note date;
- For expected retirement income, verify the amount and that it is guaranteed to being within 60 days of the Note date; and
- Evidence of sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the beginning of the receipt of the income.

Underwriting Management must review the loan file prior to the issuance of the final approval.

(j) Foreign Income Earned by a U.S. Citizen Income from a foreign source is acceptable when:

- The income is reported on the borrower’s most recent (2) years’ individual income tax returns; and
- Income paid in foreign currency must be converted into U.S. currency and deposited into a U.S. or State regulated financial institution.

Use standard income documentation based on the source and income type.

(k) Foster Care Income Foster care income may be considered effective income provided the income has been received for the last two (2) years and is expected to continue for the next three (3) years from the date of the application. Letters or exhibits from the paying agency establishing the amount, frequency and duration of these payments is required.

(l) Hemp Income Income derived from hemp may be eligible in states where hemp is legal. The borrower must:

- Provide a written attestation by the hemp grower that they are validly licensed; or
- Obtain a copy of such license.

Hemp income is eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

(m) Interest and Dividend Income Interest and dividend income is variable income that may be used to qualify if the income has been received for the past two (2) years. Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three (3) years from the date of the closing based on a recent bank statement and all of the following must be provided:

- Most recent two (2) years' individual income tax returns with all schedules; and
- Most recent account statements.

Calculate the income by using the lesser of:

- The average income earned over the previous two (2) years; or
- The average income earned over the previous one (1) year.

The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

(n) Mortgage Credit Certificates Mortgage Credit Certificates (MCC) refer to government mortgage payment subsidies other than Homeownership Vouchers (Section 8) issued in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by their primary residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. MCCs must be in a Company-approved program. See the Bond/DPA Resources & Procedures for a list of approved MCCs.

Calculation	The amount of the MCC tax credit may be added to the borrower's income rather than as a reduction to the amount of the mortgage payment. Use the following calculation to determine the available income: $[(\text{Mortgage amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income. Example } \$100,000 \text{ mortgage } 7.5\% \text{ note rate Eligible for } 20\% \text{ MCC credit Amount added to monthly income would be } \$125 [(\$100,000 \times 7.5\% \times 20\%) = \$1500 \div 12 = \$125]$
Qualifying Income	The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS. A history of receipt of the MCC tax credit is not required.

The FHA loan file must contain a copy of the MCC and documented calculation of the adjustment to the borrower's income. **Mortgage credit certificate payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.** For refinance transactions, an MCC may remain in place as long as there is confirmation from the MCC provider that the MCC remains in effect for the new mortgage. Copies of the MCC documents, including reissue certification, must be in the loan file.

(o) Nontaxable Income Generally, income is taxable unless it is specifically exempted by law. Nontaxable income may be shown on the borrower's tax return but is not taxed. Verify and document that the source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income. If the income is verified as nontaxable, and the income and its tax-exempt status is likely to continue, the income may be grossed-up only if needed to qualify the borrowers. Develop an "adjusted gross income" for the borrower. The percentage of nontaxable income that may be added cannot exceed the greater of 15% or the same tax rate used to calculate the borrower's income from the previous year. If the borrower is not required to file an individual income tax return, the nontaxable income may be grossed up by 15%. Filing requirements for most taxpayers can be found on the IRS website in addition to the attached Social Security Benefits Worksheet to determine amount of benefits that are nontaxable. Additional adjustments or allowances based on the number of the borrower's dependents is not permitted. The following income types are generally nontaxable, or a portion of the income is nontaxable. This list is not all-inclusive:

- Child Support Income
- Disability Income
- Government Assistance Programs
- Housing Choice Voucher program (HCV)
- Military Allowances
- Retirement, Pension, Annuity Income, or IRA Distributions
- Social Security Disability Income
- Social Security Retirement Income
- Supplemental Social Security Income
- Unemployment Compensation
- VA Benefits

(p) Notes Receivable Ongoing revenue received from Note income may be considered effective income. Verification that the income can be expected to continue for a minimum of three (3) years from the date of the closing is required. Obtain a copy of the Note documenting the amount, frequency, and duration of payments. In addition, one (1) of the following must be provided to evidence receipt for most recent 12 months:

- Most recent individual income tax returns with all schedules.
- Bank statements or deposit slips showing regular deposit of funds; or
- Cancelled checks.

If the amount of note receivable income fluctuates, an average over the last 12 months must be calculated to determine effective income.

(q) Public Assistance Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered effective income if it is expected to continue for the next three (3) years from the date of the application. Refer to Seasonal Unemployment section for details regarding the use of unemployment benefits. Letters or exhibits from the paying agency establishing the amount, frequency, and duration of these payments must be provided.

(i) Housing Choice Voucher Homeownership Program (Section 8) The Housing Choice Homeownership Voucher program refers to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA). The following documentation is required:

- Verify and document receipt of the Housing Choice Voucher homeownership subsidies. This income may be considered reasonably likely to continue for three (3) years.
- The income used may be considered effective monthly income if it is not used as an offset to the monthly mortgage payment. Use the current subsidy rate to calculate the income.
- Housing Choice Voucher payments are only allowed if the employer sends the funds to the borrower.
- The program may not pay the mortgage lender directly.

(r) Retirement Income, Pension, and IRA Distribution Retirement (401(k), or IRA) and pension monthly distributions require evidence of continuance for three (3) years from the date of closing. The borrower must have unrestricted access without penalty to the accounts.

Income Type	Requirements
Pension	One (1) of the following must be provided: <ul style="list-style-type: none"> • Most recent individual income tax return with all schedules; • Most recent bank statement showing the deposit; or • Pension or retirement letter from former employer.
Retirement IRA, 401(k), or Keogh	The most recent IRA or 401(k) statement and one (1) of the following must be provided: <ul style="list-style-type: none"> • Most recent individual income tax return with all schedules; or • Copy of most recent bank statement showing the deposit. If the IRA or 401(k) income fluctuates, develop and average of the income received over the previous two (2) years. If the income has been received less than two (2) years, develop the average over the time of receipt.
Expected Retirement Income	Verify the amount of the expected retirement income and that it is guaranteed to begin within 60 days of closing.

(s) Seasonal Income Seasonal part-time or seasonal second job employment refers to employment that is not year round, regardless of the number of hours per week the borrower works on the job. Seasonal employment income may be considered effective income if the borrower has worked in the same job or same line of seasonal work for the past two (2) years and is likely to be rehired for the next season. All of the following must be provided:

- Written Verification of Employment;
- Most recent paystub(s), if available;
- Most recent two (2) years' W-2s or individual income tax returns with all schedules; and
- Written confirmation from the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.

For seasonal employees with unemployment income, unemployment income for the past two (2) years must be documented and there must be reasonable assurance that this income will continue. See 2I.6(b) Unemployment Income requirements and documentation.

Seasonal income must be averaged over the past two (2) years. If income received cannot meet these requirements, it should only be considered a compensating factor.

(t) Social Security Income

Income Type	Requirements
Social Security Disability Income	Verify and document the borrower's receipt of income from the Social Security Administration (SSA) for long-term disability and that it is likely to continue for at least three (3) years from the case number assignment date. If the disability income does not have a defined expiration date, the income can be considered likely to continue. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower be questioned. A copy of the last Notice of Award or equivalent document that establishes award benefit is required in addition to one (1) of the following: <ul style="list-style-type: none"> • Most recent individual income tax returns; • Most recent bank statement; • Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter;" or • Most recent SSA-1099/1042S.
Social Security Retirement Income	Verify and document the borrower's receipt of income from the Social Security Administration (SSA) and that it is likely to continue for at least three (3) years from the case number assignment date.

One (1) of the following must be provided:

- Most recent individual income tax returns;
- Most recent bank statement;
- Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter;" or
- Most recent SSA-1099/1042S.

In addition to verification of income, the continuance of this income must be documented with one (1) of the following:

- A copy of the last Notice of Award letter, which states the SSA's determination on the borrower's eligibility for SSA income; or
- An equivalent document that establishes award benefits to the borrower (equivalent document).

If any income from the SSA is due to expire within three (3) years from the case number assignment date that income may not be used for qualifying. If the Notice of Award or equivalent document does not have a defined expiration date, the income must be considered effective and reasonably likely to continue.

Additional documentation may not be requested from the borrower to demonstrate continuance of SSA 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.

(u) Temporary Help Services Contract firms and temporary staffing firms may contract out the services of their employees to other employers. The employment and income may be considered stable when the borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure for the most recent two (2) years. Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, Third-Party Verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.

(v) Temporary Leave Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income. During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations. All of the following is required:

- Verification of pre-leave employment and income history;
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period;
- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third party service designated by employer);
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment; the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income;
- Amount of regular employment income the borrower received prior to leave; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.

Return to Work Prior to First Mortgage Payment	Use the monthly pre-leave income.
Return to Work After First Mortgage Payment	Use the lesser of the monthly leave income or pre-leave income. If the monthly leave income is less than the pre-leave income: <ul style="list-style-type: none"> • Supplement with available liquid reserves • Total qualifying income may not exceed the gross monthly income received upon return to work • Assets required to support the payment may not be counted towards available reserves
Supplemental Income Amount	Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income: <ul style="list-style-type: none"> • Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount • Number of months supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income
Qualifying Income	Total qualifying income = supplemental income plus the temporary leave income.

(w) Trust Income A copy of the Trust Agreement or Trustee Statement is required and must confirm the continuance of receipt of the trust income for at least three (3) years from closing. In addition, the most recent bank statement or transaction history from the bank must be provided to document the frequency, duration, and amount of the distribution.

(x) Unemployment Income Unemployment income, such as those received by seasonal workers, must have been received for the past two (2) years and

must be likely to continue for the next three (3) years. All of the following must be provided:

- Most recent two (2) years' individual income tax returns with all schedules; and
- Income must be clearly associated with seasonal layoffs and expected to recur and likely to continue.

See Seasonal Income for additional information on seasonal employees.

(y) Union Members Union members may hold several jobs during a year. Union members must be employed at the time of closing. Verification of income for a union member requires the following documentation:

- Current paystub from present employer. If there has been more than one (1) employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings;
- Most recent two (2) years' W-2s from all employers; and
- Most recent two (2) years' individual income tax returns with all schedules, if necessary, to document temporary or sporadic employment and unemployment income.

Develop an average of most recent two (2) years.

The loan application should reflect the borrower's current employer in the Employment Information and the Union information as the prior employer. All employers in the past two (2) years do not need to be reflected on the loan application.

(z) VA Benefits VA Benefits income (other than disability) may be used to qualify with verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application. A letter or distribution form from the Veteran's Administration is required to document VA benefits income. VA education benefits are not an eligible source of income.

Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:

- Income derived from business activity that may be permitted by State law but is prohibited by Federal law, including but not limited to marijuana related business income
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- Income paid in the form of cryptocurrency
- Incremental income derived from gambling
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- Non-incident income received from farming/agricultural use of a property
- Rental income received from the borrower's second home
- Retained earnings in a company
- Stock options
- Taxable forms of income not declared on individual income tax returns
- Trailing co-borrower income
- Unverifiable income
- Use of assets as income (except Employment-Related Assets as Qualifying income described above)
- VA education benefits

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Appraisal Requirements

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Appraiser Requirements

(a) Appraisal Integrity and Conduct The appraiser must perform all FHA appraisal assignments in a competent, independent, impartial, and objective manner. The appraiser must avoid practices that could affect the reliability of the appraisal report opinions and conclusions. In addition to compliance with USPAP, including the Competency Rule, the appraiser must not:

- Discriminate in developing any part of the appraisal or value conclusion based on characteristics that are protected by federal, state, or local laws;
- Misrepresent the scope of work performed in the completion of the FHA appraisal; or develop or communicate an appraisal report to FHA that is knowingly misleading or fraudulent.

The appraiser's performance must comply with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws and must adhere to all state and local laws relating to appraisal, licensing, and certification requirements.

(b) Appraiser Independence FHA Appraiser Independence requirements ensure and safeguard appraiser independence and enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact. Compliance with the FHA Appraiser Independence Rules is mandatory. FHA-approved lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained, or compensated in any manner by a mortgage originator or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

(c) Nondiscrimination Policy The appraiser must be knowledgeable of and fully comply with all federal, state, and local laws, including any antidiscrimination laws, rules applicable to the subject property, or any provisions of the Fair Housing Act. No part of the appraisal analysis or reporting may be based on the race, color, religion, sex, actual or perceived sexual orientation, actual or perceived gender identity, age, actual or perceived marital status, disability, familial status, national origin of either the prospective owners or occupants of the property, present owners or occupants of the property, or the present owners or occupants of the properties in the vicinity of the property, or on any other basis prohibited by federal, state, or local law.

(d) Commencement of the Appraisal The appraiser must be provided with, review and analyze all of the following before beginning an appraisal:

- A complete copy of the executed sales contract for the subject if a purchase;
- The land lease, if applicable;
- Surveys or legal descriptions, if available;
- Any other legal documents contained in the loan file;
- A point of contract and contact information so the appraiser can communicate any noncompliance issues; and
- If new construction, a fully executed form HUD-92541, Builder's Certification of Plans, Specification, and Site, dated no more than 30 days prior to the date of the appraisal order and documents related to new construction, including plans, specifications, and any exhibits provided that will assist the appraiser in determining what is to be built, or if now under construction, what will be built when finished.

All known information regarding any environmental hazard that is in or on the subject property, or in the vicinity of the property, must be disclosed, whether obtained from the borrower, the real estate broker, or any other party to the transaction.

Electronic Appraisal Delivery Portal

All FHA appraisal reports must be submitted to FHA's Electronic Appraisal Delivery (EAD) portal in order to be underwritten. Underwriters will not be able to log in appraisal reports in FHA Connection if the appraisal report is not successfully uploaded into EAD. The Appraisal Logging Update screen will have the following statement when the appraisal was successfully submitted to EAD: "Note: Screen loaded from EAD/Electronic Appraisal Data."

Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices. Be aware of these deficiencies and address them with the appraiser. If the appraiser is unwilling to resolve the issue, discuss this with the appropriate Home Ownership Center (HOC).

- Failure to:
 - Conduct a complete physical inspection of the subject property or the sales comparable sales. Provide complete appraisal information per USPAP Standards.
 - Obtain timely and suitable comparable data. Report the highest and best use of the property.
 - Report special assessments such as community association fees.
 - Correctly report the form of ownership interest.
 - Accurately report all readily observable property defects and adverse conditions that affect the property marketability. Report major defects which may impair the health or safety of the property occupants.
 - Report conflicts of interest.
 - Report verified sales concession like seller paid points or closing costs.
 - Recognize the property is in a flood zone.
 - Correctly identify public water and sewer versus private systems.
- Incomplete interior and exterior visual inspections of the subject property or lack of a visual inspection for the exterior of the comparable sales.
- Inconsistencies and calculation errors.
- Incorrectly reporting or analyzing significant physical characteristics.
- Insufficient information included in report to enable users to understand the report properly.
- Lack of required photographs and maps.
- Not providing the cost approach, where applicable.
- Not completing the income approach on a 3-4-unit dwelling.
- Not disclosing that the seller was related to the appraiser.
- Not reporting land use restrictions.
- Not reporting limiting conditions that affect the appraisal, such as but not limited to proximity to a municipal landfill, pending zoning changes, necessary repairs, etc.
- Not verifying the sales information through public records or with a copy of the sales contract.
- Providing incomplete or inaccurate descriptions of the neighborhood.
- Providing inaccurate analysis of the property characteristics.
- Stating neighborhood is primarily residential in nature when it is commercial in nature.
- Use of data, particularly comparable sales data that was provided by parties who have a financial interest in the sale or financing of the subject

property without the appraiser's verification of the information from a disinterested source. It would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is managing the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparable sales provided were the best ones available.

- Use of listings instead of actual sales without explanations.
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparable sales, or the failure to make adjustments when they are clearly indicated.
- Value conclusions not supported by data and analysis in appraisal report.

Appraisal and Case Number Assignment Date

Every FHA appraisal report must correspond to an FHA case number. The case number must be listed on the first page of the appraisal report. The case number assignment date must precede the effective date of the appraisal report, unless the underwriter certifies, via the certification field in the Appraisal Logging Screen in FHAC that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by an FHA Roster Appraiser.

The underwriter must ensure that the appraisal was performed in accordance with FHA appraisal reporting requirements. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the subject property securing the loan. FHA and Company must be indicated as the intended users of the appraisal report.

Transferred Appraisals

When a borrower has switched lenders, the first lender must, at the borrower's request, transfer the case to the second lender within five (5) business days. The lender's name on the appraisal does not need to reflect the new lender unless it is considered a new assignment.

The Company will accept an appraisal that was transferred from another lender, provided the transfer was completed in compliance with FHA requirements.

The Company may not request the appraiser to re-address the appraisal. If deficiencies are found in the appraisal, a new appraisal must be ordered. If an existing appraisal is used for a different borrower, the new borrower's information must be entered into FHAC. The Company must collect an appraisal fee from the new borrower and refund the fee to the original borrower.

If a case transfer is involved, the borrower's information must be entered into FHAC. The Company must collect an appraisal fee from the borrower, and send the fee to the original lender, who must refund the fee to the original borrower.

Second Appraisal

Ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs is prohibited.

A second appraisal may be ordered for loans that are in accordance with the requirements of property flipping.

(a) **Second Appraisal by Original Lender** A second appraisal may only be ordered if the underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency. The deficiency must be fully documented and the status of the appraisal in the loan file. The Company must pay for the second appraisal. Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- Appraiser performing the first appraisal is on the Company exclusionary list;
- Failure to report readily observable defects that impact the health and safety of the occupancy and structural soundness;
- Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- Fraudulent statement or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy or thoroughness of the appraisal.

(b) **Second Appraisal by Second Lender** A second appraisal may only be ordered when:

- The first appraisal contains material deficiencies as determined by the underwriter for the second mortgage;
- The appraiser performing the first appraisal is prohibited from performing appraisals for the Company; and
- The first lender fails to provide a copy of the appraisal to the Company in a timely manner, and the failure would cause a delay in closing and harm to the borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

Do not order a new case number, however second appraisal data must be logged in to FHAC.

The second appraisal must be used and both appraisals be in the case binder, except in the case of the first lender failing to provide the appraisal. The DE underwriter must document and retain in the loan file the explanation for why the second appraisal was ordered.

Appraisal Report Forms and Exhibits

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders, and must conform to the current Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal

Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

(a) Conditional Commitment/Direct Endorsement Statement of Appraised Value The Conditional Commitment Direct Endorsement Statement of Appraised Value Form, HUD-92800.5B, is the underwriter's acceptance of the appraisal. By signing this document, the underwriter is stating that the property is eligible for FHA mortgage insurance. One copy of the Direct Endorsement Statement of Appraised Value must be provided to the borrower, one copy must be included in the FHA Case binder and one copy is retained in the loan file. The borrower should be advised to read the front and back of this form.

(b) Appraisal Forms An FHA approved appraiser must prepare the appraisal form and attachments. The appraisal report must be on the current version of the appropriate appraisal form.

Form	Use
Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)	Use for appraisals of one-unit properties (including a one-unit property with an accessory apartment) and units in PUD projects.
Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465)	Use for appraisals of one-unit properties in condominium projects, including site condominiums.
Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B)	Use for appraisals of one-unit manufactured homes.
Small Residential Income Property Appraisal Report (Fannie Mae Form 1025/Freddie Mac Form 72)	Use for appraisals of two- to four-unit properties.
Compliance Inspection Report (form HUD-92051)	Use for Compliance of Final Inspection for new construction properties and manufactured housing.
Certification of Completion (Fannie Mae Form 1004D/Freddie Mac Form 442)	Use for Compliance of Final Inspection for existing property.
Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)	Use for all one- to four-unit appraisal reports.

(i) Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) An update to the appraisal may only be ordered if the Company:

- Is the intended user of the original appraisal; or
- Has received permission from the original client and the appraiser.

An appraisal update may be used only if:

- It is performed by an FHA appraiser who is currently in good standing on the FHA Appraiser Roster:
 - If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report. The file must document in the case binder why the original appraiser was not used.
- The subject property has not declined in value;
- The building improvements that contribute value to the subject property can be observed from the street or a public way;
- The exterior inspection of the subject property reveals no deficiencies or other significant changes;
- The appraisal update was performed by the appraiser within one year from the effective date of the initial appraisal being updated; and
- The appraisal update is performed before the disbursement date.

The appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form.

If the appraiser concurs with the original appraisal report and determines that the value has not declined, they must indicate so and provide any necessary comments. A photo of the front of the subject property taken from the public street must be provided.

If the appraiser does not concur with the original data report or the property value has declined, they must indicate so on the form and a photo is not required.

(ii) Photographs, Exhibits and Map Requirements The appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included. The appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The sketch must show "covered" or "uncovered" to indicate a roof or no roof (such as over a patio). The appraiser must show the calculations used to arrive at the estimated GLA. The appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design. The appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the appraiser's observation and analysis.

Photograph Exhibit	Minimum Photograph Requirements
Subject Property Exterior	<ul style="list-style-type: none"> • Front and rear at opposite angles to show all sides of the dwelling. • Improvements with Contributory Value not captured in the front or rear photograph. • Street scene photograph to include a portion of the subject site. • New Construction: include photographs that show the subject's grade and drainage. • Proposed Construction: include a photograph that shows the grade of the vacant lot.
Subject Property Interior	<ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, bedrooms. • Any other rooms representing overall condition.

	<ul style="list-style-type: none"> • Basement, attic, and crawl space. • Recent updates, such as restoration, remodeling, and renovation. • For two- to four-unit properties, also include photographs of hallways, foyers, laundry rooms and other common areas.
Comparable Sales, Listings, Pending Sales, Rentals, etc.	<ul style="list-style-type: none"> • Front view of each comparable utilized. • Photographs taken at an angle to depict both the front and the side when possible. • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, appraisers must include their own photographs as well, to document compliance.
View	Photographs of any negative or position view influences that affect value or marketability
Subject Property Deficiencies	Photographs of the deficiency or condition requiring inspection or repair.
Condo Project	Additional photographs of the common areas and shared amenities of the condo project.

(iii) Appraisal Attachments The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version.

- Photographs as required above;
- Location map showing the subject property and the comparable sales;
- Diagram of the floor plan detailing room layout;
- Exterior building sketch;
- Statement of Assumptions and Limiting Conditions and Appraiser's Certification;
- Any other certifications, if applicable (roof, water, etc.);
- Certificate of Occupancy, if applicable;
- Any state specific forms relating to property; and
- Market Conditions Addendum to the Appraisal Report (Form 1004MC/71).

The Market Conditions Addendum to the Appraisal Report must be completed for all appraisals.

The appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The appraiser must provide support for conclusions regarding housing trends and overall market conditions reported in the "Neighborhood" section. The appraiser's analysis and conclusions must be based on the information reported on this form. The appraiser's study of the market affecting the subject property include sufficient data for a statistical analysis to be relevant.

If any required data is unavailable or is considered unreliable, the appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the for; if it is available, however, the appraiser must include in the analysis.

If data sources provide the required information as an average instead of the median, the appraiser must report the available figure and identify it as an average. The appraiser must explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.

Fannie Mae appraisal forms, which are used for streamlined appraisal or a qualitative sales comparison analysis, such as Fannie Mae Forms 2055 or 2065, are not permitted.

Appraisal Report Review

(a) DE Underwriter Responsibilities The DE underwriter:

- Must evaluate the appraisal and any supporting documentation to determine if the property complies with HUD's Property Acceptability Criteria;
- Is responsible for identifying any problems or potential problems with the integrity, accuracy, and thoroughness of an appraisal;
- Will determine which repairs for existing properties must be made for the property to be eligible; and
- Must evaluate the appraisal and ensure it complies with the requirements of this chapter and any additional appraisal requirements that are specific to the subject property.
- Must evaluate the appraisal to ensure the appraisal complies with all federal, state, and local laws, including FHA and other federal, state, or local antidiscrimination laws.

(b) Appraiser Responsibilities The appraiser must:

- Observe, analyze, and report that the property meets HUD's MPR and MPS;
- Provide preliminary verification that HUD's Property Acceptability Criteria have been met;
- Provide an appraised value for the subject property; and
- Provide an explanation if the property seller is not the owner of record.

The appraiser must review and analyze the following and report the results of that analysis in the appraisal report:

- The complete copy of the executed sales contract for the subject,
- Documents related to new construction (plans, specifications, and any exhibits provided), if applicable;
- The land lease, if applicable;
- Surveys or legal descriptions, if available; and
- Any other legal documents contained in the loan file.

(c) Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure. Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness, and security of New Construction. When examination of a property reveals noncompliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the appraiser cannot determine that the property meets HUD's MPR or MPS, an inspection from a qualified entity should be obtained to make the determination. Professional judgment must be used in determining when the subject property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the subject property, such that additional inspections and/or repairs are necessary.

(d) Defective Conditions The appraisal must be evaluated in accordance with this section to determine if the property is eligible. If defective conditions exist and cannot be remedied, the underwriter must reject the property. Defective conditions refer to defective constructing, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards, or other conditions affecting the health and safety of occupants, collateral security, or structural soundness of the improvement. The appraiser must:

- Identify all defective conditions;
- Identify those that are curable and will make the property comply MPRs;
- Provide an estimate to cure; and
- Provide photographs of the defective conditions.

The underwriter must obtain evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter. Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs are required. See Required Repairs.

(i) Inspections by a Qualified Individual or Entity If the appraiser cannot determine that a property meets FHA's MPR or MPS, an inspection by a qualified individual or entity may be required. Conditions that require an inspection by a qualified individual or entity include:

- Standing water against the foundation and/or excessively damp basements;
- Hazardous materials on the site or within the improvements;
- Faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- Evidence of possible structural failure (e.g., settlement or bulging foundation wall); unsupported floor joists, cracked masonry walls or foundation);
- Evidence of pest infestation;
- Leaking or worn-out roofs; and
- Any other condition that in the judgment of the appraiser warrants an inspection.

The appraiser may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

(e) Legal and Land Use Considerations

Party or Lot Line Wall	A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof. The appraiser must note if the party or lot line wall does not extend to the roof or beyond.
Non-residential Use of the Property	<p>The appraiser must calculate the non-residential portion of any residential property. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area. The appraiser must comment on any non-residential use within the property and state the percentage of the total floor area that is utilized as non-residential. The appraiser must report whether the non-residential use is legal and in compliance with current zoning requirements. Any non-residential use:</p> <ul style="list-style-type: none"> • Must not exceed 49% of the total floor area; • Must be subordinate to its residential use, character, and appearance; • May not impair the residential character or marketability of the property; and • Must be legally permitted and conform to current zoning requirements.
Zoning	<p>The appraiser must determine if current use complies with zoning ordinances.</p> <ul style="list-style-type: none"> • If the property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as "Legal Non-Conforming" and provide a brief explanation; • The appraiser must analyze and report any adverse effect that the non-conforming use has on the property's value and marketability; and • The appraiser must determine whether the property may be legally rebuilt if destroyed. <p>If the property cannot be legally rebuilt, it is not eligible.</p>
Encroachments	<p>Encroachment refers to an interference with an intrusion onto another's property.</p> <p>The appraiser must report the presence of any encroachments affecting the subject property so the underwriter can determine eligibility.</p> <p>The appraiser must identify any encroachments:</p> <ul style="list-style-type: none"> • If the subject's dwelling, garage, or other improvement do not encroach onto an adjacent property, right-of-way, utility easement, or building restriction line; and • By the subject or adjacent property fences is acceptable provided such encroachment does not affect the marketability of the subject property.

Easements and Deed Restrictions	<p>An easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.</p> <p>A deed restriction refers to a private agreement that restricts the use of real estate in some way and is listed in the deed.</p> <p>The appraiser must analyze and report the effect that easements and other legal restrictions, such as deed restrictions, may have on the use, value, and marketability of the property. The appraiser must review recorded subdivision plats when available.</p> <p>If the appraiser notes the presence of any easements and deed restriction, the underwriter must review and determine eligibility. See Chapter 2D Property Types, 2D.1(l) Deed/Resale Restrictions for acceptable deed restrictions.</p>
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(f) Externalities Externalities refer to off-site conditions that affect a property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas liens, overhead electric power transmission lines and local distribution lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks. The appraiser must report the presence of externalities and consider how externalities affect the marketability and value of the property, report the issues and the market's reaction, and address any positive or negative effects on the value of the subject property. The underwriter must review the appraisal report and determine if there are any positive or negative effects on the value of the subject property due to any externalities as reported by the appraiser.

Externality	Requirement
Heavy Traffic	The appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.
Airport Noise and Hazards	<p>The appraiser must:</p> <ul style="list-style-type: none"> Identify if the property is affected by noise and hazards of low flying aircraft because it is near an airport; Review airport contour maps and analyze accordingly; and Determine and report the marketability of the property based on this analysis.
Special Airport Hazards	<p>For properties located in Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields the following applies:</p> <ul style="list-style-type: none"> Existing Dwellings: The borrower must acknowledge the hazard. New Construction: The property is ineligible. <p>Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible if it is determined that the property complies with Department of Defense guidelines.</p>
Proximity to High Pressure Gas Lines	<p>The appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both above ground and subsurface and determine and report marketability based on this analysis.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the property is located less than ten (10) feet from the nearest boundary of the pipeline easement.</p>
Overhead Electric Power Transmission and Local Distribution Lines	<p>Overhead electric power transmission lines refer to electric lines that supply power from generation stations to local distribution lines. Local distribution lines refer to electric lines that commonly supply power to residential housing developments, similar facilities, and individual properties.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the overhead electric power transmission lines or the local distribution lines pass directly over any dwelling, structure, or related property improvement, including pools, spas, or water features.</p> <p>The appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances and must determine if the guidelines for encroachments apply.</p> <p>The underwriter must confirm:</p> <ul style="list-style-type: none"> That any overhead electric power transmission lines do not pass directly over any dwelling, structure, or related property improvement, including pools. The power line must be relocated for a property to be eligible; and That the residential service drop line do not pass directly over any pool, spa, or water feature. <p>If the dwelling or related improvements are located within the easement area or appear to be located within an unsafe distance of any power line or tower, a certification must be obtained from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and local distribution lines conforms to local standards and is safe.</p>
Smoke, Fumes, and Offensive or Noxious Odors	The appraiser must notify the Company if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the property. The appraiser considers the effect of the of any of these conditions that exist and do not threaten the occupants or marketability.
Stationary Storage Tanks	Any above ground stationary storage tanks must be more than 300 feet of the subject property line if it has a capacity

of 1,000 gallons or more of flammable or explosive material.

Any above ground stationary storage tanks within 300 feet of the subject property line with a capacity of 1,000 gallons or more of flammable or explosive material are ineligible.

(g) Site Conditions

(i) Access to Property Adequate vehicular access to a property refers to an all-weather road surface over which emergency and passenger vehicles can pass at all times. The property must have safe pedestrian access and adequate vehicular from a public street or private street that is protected by a permanent recorded easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

(ii) On Site Hazards and Nuisances On site hazards and nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the property. The appraiser must:

- Report and comment on the presence of all on site hazards and nuisances;
- Provide photographs of potential problems or issues to assist the underwriter in understanding the problem;
- Report any special conditions that may exist or arise during the construction and necessitate precautionary or hazard mitigation measures for new or proposed construction; and
- Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

The underwriter must require corrective work to mitigate potential adverse effects from any on site hazard or nuisances reported by the appraiser.

(iii) Topography The surface and subsurface water should be diverted from the dwelling to ensure drainage away from the foundation. The appraiser must report any danger due to topographic conditions (e.g., earth and mud slides from adjoining properties, falling rocks, and avalanches) to the subject property or the adjoining land. The property must be inspected by a qualified individual or entity if:

- The purchase contract indicates, or the appraiser observes any dampness because of a foundation issue or surface; and
- If the appraiser notes surface and subsurface water that is not diverted from the dwelling.

(iv) Grading and Drainage The subject property must have adequate grading and proper drainage control measures (may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation) and should not have any observable evidence of standing water adjacent to the foundation that indicates improper drainage.

(v) Suitability of Soil The appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formation, and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements. The appraiser should also consider events published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

(vi) Land Subsidence and Sinkholes Land subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes. The danger of ground subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes, or settlement problems. The underwriter must determine eligibility or the need to require the purchase of subsidence insurance.

(vii) Oil or Gas Wells

Operating for Proposed	<ul style="list-style-type: none">• The dwelling cannot be located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.• If the dwelling is located within 75 feet of an operating oil or gas well, reject the property unless mitigations measures are completed.
Abandoned Well	<ul style="list-style-type: none">• An abandoned gas or oil well on the subject site or an adjacent property is not permitted unless a letter from the local jurisdiction or the appropriate state agency stating that the subject well was permanently abandoned in a safe manner is provided.• A property located near a gas well that emits hydrogen sulfide is acceptable if a petroleum engineer has established the minimum clearance. The appraiser must assess any impact that the location of the well has on the value and marketability of the property.

(viii) Hydrogen Sulfide Gas Wells (Sour Gas Wells) Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety. An inspection by a qualified individual or entity and provides evidence that the minimum clearance has been established is required.

(ix) Slush Pits A slush pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings. If the property has a slush pit, the appraisal must be made subject to the removal of all unstable and toxic materials and the site made safe.

(x) Flood Zones The appraisal must indicate the FEMA zone designation, the map panel number and map date. If the property is located within a Special Flood Hazard Area (SFHA), a copy of the flood map panel must be attached to the appraisal report. If the property is not shown on any map, the appraisal indicates "not mapped." The appraiser must quantify the effect on value, if any, for properties situated within a designated SFHA. A flood zone determination must be obtained independent of any assessment made by the appraiser to cover Life of Loan Flood Certification. A property is not eligible if:

- A residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- The improvements are, or are proposed to be, located within a Coastal Barrier Resource System (BCRS).

Property	Requirements
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New Construction	If any portion of the dwelling, related structures, or equipment essential to the value of the property and subject to flood damage is located within an SFHA, the property is not eligible unless one (1) of the following occurs: <ul style="list-style-type: none"> • A FEMA final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained that removes the property from SFHA. • A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33), prepared by a licensed engineer or surveyor, is obtained. The elevation certificate must document that the lowest floor including the basement, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with FHIP criteria, and insurance under NFIP is obtained.
Existing Construction	When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained.
Condominiums	The homeowners' association (HOA) must obtain insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the borrowers who hold title to the individual unit, as well as the common areas of the condo project.
Manufactured Housing	The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related structures, or equipment essential to the property value and subject to flood damage for both new and existing manufactured homes are located within an SFHA, the property is not eligible unless one (1) of the following is obtained: <ul style="list-style-type: none"> • A FEMA issued LOMA or LOMR that removed the property from the SFHA; and • A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year frequency flood elevation, and insurance under the NFIP is obtained.

(xi) Coastal Barrier Resources Systems (CBRS) Properties located in a Coastal Barrier Resources System (CBRS) are not eligible.

(xii) Mineral, Oil and Gas Reservations or Leases The appraiser must analyze and report the degree to which the residential benefits may be impaired, or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases. The appraiser should consider the following:

- The rights granted by the reservation or lease causes an infringement on the property rights of the fee owner; and
- The hazards, nuisances, or damages that may arise or accrue to the subject property from exercise of reservation or lease privileges on neighboring properties.

(xiii) Excess and Surplus Land Excess land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately. Surplus land refers to land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels. The appraisal must indicate the highest and best use analysis in the appraisal report to support the appraiser's conclusion of the existence of excess land. The appraiser must include surplus land in the valuation. If the subject of an appraisal contains two (2) or more legally conforming platted lots under one (1) legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is excess land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

(xiv) Soil Contamination Soil contamination refers to the presence of manufactured chemicals or other alterations to the natural soil environment. Conditions that indicate silt contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums, or odors.

(xv) Residential Underground Storage Tanks The appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or on-site contamination, the appraiser must require further inspection.

(h) Characteristics of Property Improvements

(i) Living Unit Each living unit must contain one (1) of the following:

- A continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- Sanitary facilities and a safe method of sewage disposal;
- Every living unit must have at least one (1) bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- Adequate space for healthful and comfortable living conditions;
- Heating adequate for healthful and comfortable living conditions;
- Domestic hot water; and
- Electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

Appliances that will remain in the subject property and that contribute to the market value must be operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units.

(ii) Access to Living Unit Access to the living unit must be provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit. For an attached dwelling, the access may be by means of alley, easement, common area, or passage through the dwelling. There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present. The property is ineligible if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

(iii) Non-Standard House Styles Non-standard house style refers to unique properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower-than-normal ceiling heights, and other houses that in the appraiser's opinion, are unique. The appraiser must provide a

comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a property to be fully marketable, the appraiser must demonstrate that it is located in an area of similar types of construction and blend in with the landscape.

(iv) Accessory Dwelling Unit (ADU) An accessory dwelling unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary single family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities. As part of the highest and best use analysis, the Appraiser must make the determination to classify the property as a single family dwelling with an ADU, or a two-unit dwelling. The conclusion of the highest and best use analysis will then determine the classification of the subject property and the analysis and reporting required. More than one (1) ADU located on the subject property is ineligible. An Accessory Dwelling Unit:

- Is usually subordinate in size, location, and appearance to the primary dwelling unit;
- May or may not have separately metered utilities or separate means of ingress or egress; and
- Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling.

(v) Additional Manufactured Home on Property When the primary dwelling is stick-built, a manufactured home on the lot may be considered an ADU and be given value if it meets the highest and best use and all FHA Manufactured Housing requirements. Refer to Chapter 2D Property Types. Value may be given to a manufactured home on the property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

(vi) Leased Equipment, Components and Mechanical Systems The value of leased mechanical systems and components must not be included in the appraised value. This includes furnaces, water heaters, fuel, or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the borrower. The property value must not include the value of any equipment, including an energy system, which is not fully owned by the borrower. The terms of any leased equipment must be reviewed to ensure they do not contain any Legal Restrictions on Conveyance.

(vii) Gross Living Area The most common comparison for one-unit properties is the above-grade gross living area. The appraiser must be consistent when calculating and reporting the finished above-grade room count and the square footage of gross living area that is above-grade. Finished basements and unfinished attic areas must not be included in the total GLA and the same measurement techniques for the subject must be used for the comparable sales and report the building dimensions in a consistent manner. When any part of a finished level is below grade, the appraiser must report all of that level as below-grade finished area and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space. Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area.

Additions and Converted Space	<p>Room additions and garage conversions should be included in the GLA of the dwelling, provided that the addition or conversion space:</p> <ul style="list-style-type: none"> • Is accessible from the interior of the main dwelling in a functional manner; • Has a permanent and sufficient heat source; and • Was built in keeping with the design, appeal, and quality of construction of the main dwelling. <p>Room additions and garage conversions that do not meet the above criteria are to be addressed as a separate line item in the sales grid, not in the GLA. Any impact of inferior quality garage conversions and room additions on marketability as well as contributory value should be discussed.</p>
Partially Below-Grade Habitable Space	<p>Partially Below-Grade Habitable Space refers to living area constructed partially below grade but has the full utility of GLA.</p> <p>The appraiser must report the design and measurements of the subject property, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.</p> <p>Regardless of the description of the rooms, bedrooms, or baths as above grade or below grade, the appraiser must analyze all components of the subject property in the valuation process.</p>
Bedrooms	<p>A room that cannot accommodate ingress or egress in the event of an emergency cannot be considered as a bedroom, regardless of location above or below grade. There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present.</p>

(viii) Appliances Real property refers to the interests, benefits, and rights inherent in the ownership of physical real estate. Personal property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins, or other collectibles. The value of personal property must not be included in the appraisal. Cabinets and built-in appliances that are considered real property must be present and operational.

(ix) Swimming Pools The appraiser must:

- Report readily observable defects in a non-covered pool that would render the pool inoperable or unstable;
- Must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines and the surrounding land regraded, if necessary; and
- Must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to fully operating condition at normal costs if the pool has been winterized or cannot determine if the pool is in working order.

Empty or non-functioning swimming pools/spas may be acceptable if one (1) of the following requirements is met:

- The swimming pool/spa is secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover;
- The swimming pool/spa has been filled with dirt;
- A fence surrounds the swimming pool/spa; and
- In addition, the appraiser must comment on the effect on the property's marketability and must not present a health or safety issue.

If the swimming pool does not meet acceptable requirements, confirm that any swimming pools on the property comply with all local ordinances.

(x) Mechanical Components and Utilities Mechanical systems must:

- Have reasonable future utility, durability, and economy;
- Be safe to operate;
- Be protected from destructive elements; and
- Have adequate capacity.

The appraiser must:

- Observe the physical condition of the plumbing, heating, and electrical systems;
- Operate the applicable systems and observe their performance;
- Condition for repair or further inspection if the systems are damaged or do not appear to function properly; and
- Note whether the utilities were on or off if the property is vacant.

If the utilities are off at the time of the inspection, the appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the appraisal must:

- Be subject to re-observation;
- Upon further observation, determine if the systems are in proper working order once the utilities are restored; and
- Be completed under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

If systems could not be operated due to weather conditions, the appraisal report must clearly note this. The systems should not be operated if doing so may damage equipment or when outside temperature will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the appraiser cannot determine if one (1) or all of these systems are working properly.

System	Requirement
Heating and Cooling Systems	<p>The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of the heating system must be adequate for healthful and comfortable living conditions, regardless of design, fuel, or heat source.</p> <p>The permanently installed heating system must:</p> <ul style="list-style-type: none"> • Automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing; • Provide healthful and comfortable heat or is not safe to operate; • Rely upon a fuel source that is readily obtainable within the subject's geographic area; • Have market acceptance within the subject's marketplace; and • Operate without human intervention for extended periods of time. <p>Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the appraiser must indicate the level of deferred maintenance, analyze, and report the effect on marketability, and include the cost to cure.</p>
Electrical System	<p>The electrical system must be adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amps and panel size are inadequate for the property; and • Operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. <p>The appraiser is not required to insert any tool, probe, or testing device inside the electrical panel or to dismantle any electrical device or control.</p>
Plumbing System	<p>The plumbing system must adequately function to supply water pressure, flow, and waste removal.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Flush the toilets and operate a sample of faucets to observe water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there are no readily observable evidence of leaks or structural damage under fixtures; • Examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water; • Examine the septic system (if applicable) for any signs of failure or surface evidence of malfunction; and • Repair or further inspection is required if there are readily observable deficiencies.

Hot Water Heater	The appraiser must turn on the hot water heater to ensure that the water heater is operating properly.
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(xi) Roof The roof covering must prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance and does not have a remaining physical life of at least two (2) years and not present a health or safety hazard. If the roof has less than two (2) years of remaining life a professional roofer must inspect it. When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings. Based on the information provided by the appraiser, the underwriter will determine whether a roofing inspection is required.

(xii) Structural Conditions The appraiser must perform a visual observation of the foundation and structure of the improvements and report those results. If the appraiser notes any structural issues, the appraiser must address the nature of the deficiency and require inspection. The underwriter must confirm that the structure of the property is serviceable for the life of the mortgage. All foundations must be serviceable for the life of the mortgage and be adequate to withstand all normal loads imposed.

(xiii) Attic The appraiser must observe the interiors of all attic spaces. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, or debris that obstructs access or visibility. If unable to safely view the area, the appraiser must reschedule a time when a complete visual observation can be performed or complete the appraisal subject to the inspection. If access through a scuttle is limited and the appraiser cannot fully enter the attic, the insertion of at least the head and shoulder is acceptable. If there is no access or scuttle, the appraiser must report the lack of accessibility to the area. There is no requirement to cut open walls, ceilings, or floors. If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), reinspection and repairs may be necessary.

(xiv) Foundation The appraiser must examine the foundation for evidence of safety or structural deficiencies that may require repair. The appraiser must describe any deficiencies and report necessary repairs, alterations or required inspections. For manufactured housing, the appraisal must be conditioned upon the certification of an engineer or architect that the foundation follows the Permanent Foundations Guide for Manufactured Housing (PFGMH).

(xv) Basement The basement must be free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

(xvi) Crawl Space The crawl space must satisfy all of the following criteria:

- The floor joist must be sufficiently above ground level to provide access for maintaining and repairing duct work and plumbing;
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists;
- The crawl space must be properly vented unless the area is mechanically conditioned;
- The crawl space must be free of trash, debris, and vermin; and
- The crawl space must not be excessively damp and must not have any water pooling. If moisture problems are evident, a qualified third party must perform an inspection and a vapor barrier and/or prevention of water infiltration must be required.

The appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness, and security of the property.

If access through a scuttle is limited and the appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulder is acceptable.

If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained sub flooring or smell of mold), the appraiser must report this condition. The appraiser must report the lack of accessibility. There is no requirement to cut open walls, ceilings, or floors.

(xvii) Utility Services Utility services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone. If utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body, it must be confirmed that this information is recorded on the deed record. Utilities located on easements that have been permanently dedicated to the local government or appropriate public utility body, should comply with the following:

- The subject property is an attached, detached or manufactured single family dwelling and the utilities are not independent for each living unit (not including ADUs);
- The utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body;
- The property contains multiple living units under a single mortgage or ownership (two- to four-family properties) that utilize common services, such as water, sewer, gas, and electricity and is served by one (1) meter in jurisdictions that allow single meter rental properties if separate utility service shut-offs are not provided for each;
- If other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single mortgage;
- The property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an easement or covenant and maintenance agreement, if individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities; or
- If a single drain line in the building serves more than one (1) unit, and the building drain clean-outs are not accessible from the exterior.

Whenever possible, connection should be made to a public or community water or sewage system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

(xviii) Environmental The appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the property's ability to serve as collateral, and the structural soundness of the improvements. Environmental and safety hazards may include defective lead-paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the structure from soil or other differential ground movements, subsidence, flood, and other hazards. The underwriter must confirm that the property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupancy, the property's ability to serve as collateral, and the structural soundness of the improvements.

Hazard	Requirement
Lead-Based Paint	• The appraiser must note the condition and location of all defective paint and require repair.

	<ul style="list-style-type: none"> • The underwriter must confirm that the property is free of lead paint hazards on properties built on or before 1978. • If the appraiser does not mention peeling paint in a pre-1978 property, yet the photographs show peeling, the underwriter must follow up with the appraiser. • See Chapter 2A Loan Eligibility for Lead Based Paint disclosures if the property was built on or before 1978.
Methamphetamine Contamination	<ul style="list-style-type: none"> • If a property is contaminated by the presence of methamphetamine (meth), either by manufacture or consumption, the appraiser must render the appraisal subject to the property being certified safe for habitation. • If the effective date of the appraisal is prior to certification that the property (site and dwelling) is safe for habitation, the appraiser should complete the appraisal subject to certification. • If the effective date of the appraisal is after certification that the property (site and dwelling) is safe for habitation, and the appraiser has been provided a copy of the certification by the certified hygienist, the appraiser must include a copy of the certification with the appraisal report. • The appraiser must analyze and report any long-term stigma caused by the property's contamination and any impact on value or marketability. • If the Company has knowledge about the potential contamination of a property, the appraiser must be made aware. If the underwriter or appraiser identifies a property as contaminated by meth, the property is ineligible until it is certified safe for habitation.
Wood Destroying Insects/Organism, Termites	<ul style="list-style-type: none"> • When examination of new or existing construction reveals non-compliance with MPR and MPS, the appraiser must report the repairs necessary to make the property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for required repairs. • If compliance can only be affected by major repairs or alterations, the appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal. • For existing properties, it must be confirmed 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, an inspection must be obtained and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms. • Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance has been obtained to show that the treatment will not endanger the quality of the water supply.

(i) Repair Requirements The underwriter must obtain any evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter. Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs or inspections are required and listed on the Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B. The DE underwriter must make detailed notes on the HUD 92900-LT supporting the omission or addition of repairs or inspections recommended by the appraiser. The appraisal does not have to be modified to match the Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B.

Limited Required Repairs	<p>The appraiser must limit required repairs to those repairs necessary to:</p> <ul style="list-style-type: none"> • Maintain the safety, security, and soundness of the property; • Preserve the continued marketability of the property; and • Protect the health and safety of the occupants.
As-is Condition and Cosmetic Repairs	<ul style="list-style-type: none"> • The appraiser may complete an "as-is:" appraisal for existing properties when minor property deficiencies, which result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the property. • Cosmetic or minor repairs are not required, but the appraiser must report and consider them in the overall condition when rating and valuing the property. Cosmetic repairs include missing and rails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser's professional judgment do not pose a health and safety issue to the occupants of the house. • If an element is functioning well but has not reached the end of its useful life, the appraiser should not recommend replacement because of age.
Defective Conditions Requiring Repairs	<p>The nature and degree of any noted deficiency will determine whether the appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.</p>
Conditions Requiring Inspection by a Qualified Individual or Entity	<p>The appraiser must provide notice and make the appraisal subject to an inspection by a qualified individual or entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the appraiser's ability to assess. The appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.</p>

(j) Water Supply Systems

(i) Public Water Supply System The underwriter must confirm that a connection is made to a public or community water system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable, provided they are functioning properly and meet the requirements of the local health department. When a public water supply system is present, the water quality is considered to be safe and potable and meet the requirements of the health authority with jurisdiction unless:

- The appraiser indicates deficiencies with the water or that the water is unsafe; or
- The health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(ii) Community Water Systems A Community Water System refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association. If the property is on a Community Water System, the appraiser must note the name of the water company on the appraisal report.

(iii) Individual Water Supply Systems (Well) When an Individual Water Supply System is present, the lender must ensure that the water quality meets the requirements of the health authority with jurisdiction. If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.

Well Water Testing Requirements	<p>A well water test is required for, but not limited to, properties:</p> <ul style="list-style-type: none"> • That are newly constructed; • Where an appraiser has reported deficiencies with a well or the well water; • Where water is reported to be unsafe or known to be unsafe; • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous waste; and • Where the distance between the well and septic system is less than 100 feet. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p>
Required Documentation	<p>A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority must be obtained.</p>
Appraiser Responsibility	<p>The appraiser must:</p> <ul style="list-style-type: none"> • Report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection. When the appraiser obtains evidence that any of the water quality requirements are not met, the appraiser must notify the lender and provide an estimated cost to cure; • Note the deficiency of MPR or MPS if the subject property contains a well located within the foundation walls of an existing dwelling and there is no evidence that the local jurisdiction recognizes and permits such a location, that it is common to for the market area, and does not adversely affect marketability unless the well is located within the foundation walls of a new construction dwelling in an arctic or sub-arctic region; • Report when water to a property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site. The appraiser must report whether such systems are readily accepted by the local market and that the water supply system may violate MPR or MPS; and • Note the deficiency of MPR or MPS if the subject property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point, or artesian wells. <p>A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equals or exceeds that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.</p> <p>The appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:</p> <ul style="list-style-type: none"> • The water supply relies upon a water purification system due to the presence of contaminates; • Corrosion of pipes (plumbing); • Areas of intensive agricultural uses within one quarter mile; • Coal mining or gas drilling operations within one quarter mile; • A dump, junk yard, landfill, factory, gas station, or dry-cleaning operation within one quarter mile; or • An unusually objectionable taste, smell, or appearance of well water. <p>The appraiser must also be familiar with the minimum distance requirements between private wells and sources or pollution and, if discernible, comment on them. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures but may provide estimated distances if comfortable doing so. When available, the appraiser should obtain from the homeowner a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.</p> <p>Requirements for the location of wells are located in CFR § 200.926d (f)(3).</p>

Individual Water Supply for Minimum Property Requirements for Existing Construction	
1	Property line: 10 feet
2	Septic tank: 50 feet
3	Drain field: 100 feet
4	Septic tank drain field reduced to 75 feet is allowed by local authority
5	If the subject property line is adjacent to residential property, the local well distance requirements apply. If the subject property is adjacent to non-residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping

2	If no local chemical and bacteriological water standards; state standards apply
3	Connection of public water whenever possible
4	Wells must deliver a continuous water flow of five (5) gallons per minute over at least a four-hour period
Water Wells Minimum Property Standards for Existing Construction	
1	Existing wells must deliver a continuous water flow at a minimum of three (3) gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirement of local jurisdictional or the EPA if no local standard

(iv) Shared Wells A shared well refers to a well that services two (2) to four (4) homes where there is a binding shared well agreement between the property owners that meets the requirements below. Confirm that a shared well:

- Serves existing properties that cannot feasibly be connected to an acceptable public or community water supply system;
- Is capable of providing a continuous supply of water to all dwelling units so that each existing construction property simultaneously will be assured of at least three (3) gallons per minute (five (5) gallons per minute for proposed construction) over a continuous four-hour period (the well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling unit during construction during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties);
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the ERA's National Interim Primary Drinking Water Regulations;
- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling unit without interrupting service to the other properties; and
- Serves no more than four (4) living units or properties.

Well Water Testing Requirements	<p>A well water test is required for, but not limited to, properties:</p> <ul style="list-style-type: none"> • That are newly constructed; • Where an appraiser has reported deficiencies with a well or the well water; • Where water is reported to be unsafe or known to be unsafe; • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; and • Where the distance between the well and septic system is less than 100 feet. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p>
Required Documentation	A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority must be obtained.

For both new and existing construction properties, the underwriter must ensure that the shared well agreement complies with the guidance provided in the following table.

Provisions that must be reflected in any acceptable shared well agreement include the following:	
1	Require that the agreement be binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joinder by any lender holding a mortgage on any property connected to the shared well.
2	Permit well water sampling and testing by the local authority ant the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. "Supplied" parties normally should assume all costs for their continuing water supply.
5	Prohibit well water usage by a party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: <ul style="list-style-type: none"> • The consent of all parties; • The appropriate amendment of the agreement; and • Compliance with #3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for proposed construction) of the shared well.
8	Establish assessments for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the easements.

10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property.
12	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement.
13	Require that any necessary replacement or improvement of a system elements) will at least restore original system performance.
14	Specify required cost sharing for: <ul style="list-style-type: none"> • The energy supply for the well pump; • System maintenance, including repairs, testing, inspection, and disinfection; • System component replacement due to wear, obsolescence, incrustation, or corrosion; and • System improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
15	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
16	Require that each party be responsible for: <ul style="list-style-type: none"> • Prompt repair of any detected leak in this water service line or plumbing system; • Repair costs to correct system damage caused by a resident or guest at their property; and • Necessary repair or replacement of the service line connecting the system to the dwelling.
17	Require equal sharing of repair costs for damage caused by persons other than a resident or guest at a property sharing the well.
18	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
19	Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs.
20	Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally insured or-guaranteed mortgage on any property served, except as provided in items #5 and #11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. parties to the agreement must equally share arbitration costs.

(v) Individual Residential Water Purification Systems An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on properties that otherwise do not have access to a continuous supply of safe and potable water. **Individual Residential Water Purification Systems are not permitted.**

(k) Sewage Systems A sewage system refers to wastewater systems designed to treat and dispose of effluent on the same property that produces the wastewater. When the onsite sewage disposal system is not sufficient and an off-site system is available, connection to the off-site sewage system is required. The appraiser must inspect the onsite sewage system and require an inspection to ensure that the system is in good working order if there are signs of system failure. The appraiser must report the availability of public sewer. The underwriter must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing sewage systems are acceptable provided they are functioning properly and meet the requirements of the local health department. When the sewage system is not sufficient and an off-site system is available, connection to the off-site system must be confirmed. When the sewage system is not sufficient, and an off-site system is not available, the property must be rejected unless the onsite. sewage disposals system is repaired or replaced and complies with local health department standards.

Development of Market Value

Market Value refers to the most probably price which a property should bring in a competitive and open market under all condition requisite to a for sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

There are three (3) valuation approaches:

- Sales comparison approach
- Income approach
- Cost approach

The appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant and obtain credible and

verifiable data to support the application of the three (3) approaches to value.

(a) Sales Comparison Approach The sales comparison approach is required for all appraisals. If the data from the market area is insufficient to support some of these requirements, the appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached, and the steps taken to attempt to meet these guidelines. The appraisal report must include as many comparable properties are necessary to support the analysis and conclusion. At a minimum, the appraisal report must include:

- The most recent and relevant sales, preferably within the last six (6) months;
- At least three (3) sales that closed no longer than 12 months prior to the effective date of the appraisal; and
- Additional support by including more sales, offerings, offerings under contract, or relevant sales that closed more than 12 months prior to the effective date of the appraisal.

The appraiser must research, report, and analyze the prior three (3) year sales history of the subject property and prior 12-month sales history of the comparable sales.

(i) Comparable Sales Selection

Property Characteristics	Comparable sales should be selected based on similar location and physical characteristics, not sales price. Comparable sale selection must be based on properties having the same or similar location characteristics, physical characteristics, and the priority of the market assigns to each factor.
Transaction of Characteristics	An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value. The appraiser must utilize arm's length transactions for comparable sales except when there is evidence that REO sales or short sale/pre-foreclosure sales (PFS) are so prevalent that normal arm's length transactions are not present or supported by the market trend. A transaction involving a foreclosure transfer to a lender is not evidence of the market value and is not a valid type of comparable sale. The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an arm's length transaction: <ul style="list-style-type: none"> • REO sale • Transfer from lender to new owner • Short sale/PFS Estate sale • Court ordered sale • Relocation sale • Flip transactions
Rural and Slow Growth Markets	If insufficient comparable sales have occurred within the previous six (6) months, at least three (3) sales that closed within 12 months prior to the effective date of the appraisal must be used. Where there is a scarcity of recent comparable sales, comparable sales older than 12 months may be used. The most recent and relevant sales must be reported and a thorough explanation of the market conditions, the levels of supply and demand, and a reason for lack of sales data must be included.

(ii) Comparable Sales Inside and Outside Established Subdivision or Projects For properties located in established subdivisions or for units in established condominium, or PUD projects, comparable sales from within the subject property's subdivision or project should be used if the project has resale activity. Arm's length resale activity from within the subdivision or project is the best indicator of value for properties in the subdivision or project. If comparable sales located outside of the subject neighborhood are used, an explanation with the analysis is required.

(iii) Comparable Sales Inside and Outside New Subdivisions or Projects For properties located in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the comparable sales from within the subject subdivision or project as well as in the general market area should be used. Whenever possible, at least one (1) comparable sale from the subject subdivision or project and at least one (1) comparable sale from outside the subject subdivision or project or subdivision should be used so that this market acceptance may be directly compared.

(iv) Sales Concessions Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustment is necessary for those costs, which are normally paid sellers as a result of tradition or law in a market area; those costs are readily identifiable since the seller pays these costs in all sales transactions. Special or creative financing adjustment can be made to the comparable sale by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Adjustments are not calculated on a dollar-for-dollar cost of the financing or sales concessions. However, the dollar amount of any adjustment should approximate the market's reaction to the sales concessions based on the appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the sales concession and what the property would have sold for without the concessions under typical market conditions. All comparable sales transactions must be verified for sales concessions and reported in the appraisal. The appraisal must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one (1) of their representatives), the appraiser must report the lack of verification. Market-based adjustments must be made to the comparable sales for any sales or financing concessions that may have affected the sales price. The sales concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The appraiser must include an explanation of the effect of the sales concessions on the sale price of the comparable.

(v) Bracketing Bracketing refers to selecting comparable sales with features that are superior or inferior to the subject. Comparable sales must be selected based on the principal of substitution. Comparable sales should not be chosen only because their prices bracket a desired or estimated value. To determine the best comparable sales, the appraiser must use bracketing techniques when possible and appropriate.

(vi) Adjustments The following are the preferred underwriting guidelines for line item, net, and gross adjustments:

- 10% line item adjustments
- 15% net adjustments
- 25% gross adjustments

(vii) Market Condition (Time) Adjustments Market condition adjustments refer to adjustments made to reflect value changes in the market between the

date of the contract for the comparable sale and the effective date of the appraisal. The comparable sales may be adjusted if they were contracted for sale during a market period different from that of the date of the valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation. The appraisal report must provide a summary comment and support for all conclusions relating to the trend of the current market. An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

(viii) Changing Markets The final conclusion must be based on the reconciliation of all data.

Increasing Markets	In an increasing market, positive market condition adjustment should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.
Declining Markets	A declining market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidence by an oversupply of existing inventory and extended marketing times. A trend in the housing market is identifiable when it extends for a period of at least six (6) months or two (2) quarters prior to the effective date of the appraisal. In a declining market, negative market condition adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

The appraiser must report market conditions and determine when housing trends are increasing, stable or declining and provide a summary comment as to the continuance of the current trend or if the trend is changing and provide support for all conclusions. If the appraiser bases the adjustment on a published source, the appraiser must include a copy, which must be included in the addendum.

The appraiser must include an absorption rate analysis, at least two (2) comparable sales that closed within 90 days prior to the effective date of the appraisal, a minimum of two (2) active listings or pending sales on the SCA Grid (in addition to at least three (3) settled sales). If the appraiser cannot comply with these requirements due to a lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current forecasted market.

For active listings or pending sales, the appraiser must:

- Ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales;
- Use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sales price ratios;
- Include the original list price, any revised list prices, and calculate the total Days on Market (DOM);
- The appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal;
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the closed sales provided; and
- If the adjusted values of the closed comparable sales are higher than the adjusted values of the active listings or pending sales, determine if a market condition is appropriate.

(ix) Effective Age and Remaining Economic Life The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant differences between the actual and effective ages requires an explanation. The remaining economic life must be stated as a single number or as a range for all property types, including condominiums. The appraiser must provide an explanation if the remaining economic life is less than 30 years. The mortgage term must be less than or equal to the remaining economic life of the property.

(b) Cost Approach The appraiser may use any of the creditable and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other creditable source that can be duplicated). If the appraiser uses cost estimates provided by the contractor or builder, the cost estimates must be reasonable and independently verified. The appraiser must estimate the site value. Acceptable methodology used to estimate land value includes sales comparisons, allocation, and extraction.

(c) Income Approach The appraiser should apply the income approach to a single-family property when there is evidence of recently rented and then sold data pairs. The appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restriction. If comparable sales do not have rent control restrictions like the subject, an appropriate adjustment should be applied.

(d) Final Reconciliation and Conclusion The underwriter must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property. The FHA Roster appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report. A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the appraiser. A trainee or licensee may accompany the appraiser on the observations but may not perform the observations in place of the appraiser. The appraiser must select the comparable sales and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. The appraiser must also inspect the subject property and at least the exterior of the comparable sales. If another appraiser or trainee appraiser aided or participated in the preparation of the appraisal, the appraiser must disclose the name and role in developing the appraisal report.

(e) Reconsideration of Value The underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value. The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the borrower, the borrower may not pay the additional costs. The effective date of the appraisal is the date the appraiser inspected the property.

Leasehold Interest

The appraiser must be provided with a copy of the lease. The appraiser must analyze and report:

- The terms of the ground lease, including the amount of the ground rent.
- The term of the lease.
- If the lease is renewable.
- If the lessee has the right of redemption (the right to obtain a fee simple title). If the ground rent can increase or decrease over the life of the lease term.

The appraiser must estimate and report the value of the leasehold interest using the calculation below and provide support for the capitalization rate selected.

The appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its leasehold interest.
- In the income approach, the sales used to derive the GRM factor must be based on properties under similar ground rent terms (or be adjusted to similar ground rent terms).
- In the sales comparison approach, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section.

Mixed-Use Properties

Mixed-use properties are eligible when:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

When valuing a mixed-use property, the appraiser must:

- Include all components of the real estate in the analysis;
- Not include business valuation or the value of personal property or business fixtures in the appraisal;
- Provide measurements and calculations of the building area on the building sketch to show what portion of the subject property is allocated to residential use, and what portion is allocated to non-residential use; and
- Provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential property.

Manufactured Housing

When valuing a manufactured home, the appraiser must:

- Calculate GLA based on the overall length, including living areas and other projections that are at least seven (7) feet in height;
- Not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements;
- At least two (2) of the comparable sales must be manufactured homes (combining land and some sales is not acceptable); and
- New Construction manufactured homes;
 - Cost approach to value analysis must be completed for new construction units and be cited in the reconciliation discussion section (appraiser to provide name of cost service and reference page numbers (if using paper version) of cost tables or factors. If the retail purchase price, including delivery, installation, and set up costs are available, the appraiser may use this information (copy of invoice(s) showing all costs) and be appended to the report.
 - Appraisal must be conditioned upon the certification of the engineer or architect that the manufactured home foundation is in compliance with PFGMH.
 - Appraiser must report the information on the data plate within the appraisal, including the manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps.
 - Property tax estimates must be based on the land and improvements.

HUD Real Estate Owned Properties

An appraisal must be ordered on a HUD REO property to establish list price or subsequent price adjustments.

Under "Assignment Type" in the "Subject" section of the appraisal, the appraiser must mark the box labeled "Other" and indicate that the property is a HUD REO Property.

(a) Appraisal Report Conditions This appraisal report should be on the applicable appraisal report with all applicable addenda including specific REO addenda and forms completed by the appraiser and meet minimum property requirements (MPR). The appraiser must inspect the interior and exterior of the property. The appraiser must describe any differences found between the Property Condition Report (PCR) and the appraiser's observations. The appraiser must support this description with photographs when warranted. If the utilities are off at the time of inspection, the appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on then the appraisal must be completed without the utilities turned on or the mechanical systems functioning. The following standard FHA appraisal package is required for all REO property appraisals:

- Complete property-specific appraisal report;
- All required exhibits;
- A copy of the Property Condition Report (PCR);
- For Your Protection Get a Home Inspection; and
- Radon Gas and Mold Notice and Release Agreement HUD 9548E - must be included for all single-family home REO transactions.

(b) Sales Comparison Approach When considering comparable sales, the appraiser must note the conditions of the sale and the motivation of the sellers and purchasers. In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate market value, so REO sales, short sales and other non-arm's length transactions must not automatically be chosen as comparable sales. If there is compelling evidence in the market to warrant their use, the appraiser must provide additional explanation and support in the "Analysis" section of the sales comparison approach. Transfers to a lender or entity that owns the mortgage by deed of trust, through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

- (c) Conditions The "as is" value can be impacted by conditions. If the property has an illegal use or an extraordinary condition, the appraiser must estimate the cost to bring the property into compliance with zoning or typical marketability. The appraiser must report whether any grand fathered use is allowed. The appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances. For manufactured housing, a certification that the foundation complies with the PFGMH is not required.
- (d) Inspections The underwriter is responsible for reviewing any required inspections, repairs or certifications required by the appraiser.
- (e) Statement of Insurability The appraiser must include a Statement of Insurability in the "Comments" section of the appraisal report

Insurable	The appraiser must state that the property is insurable if, at the time of the appraisal, the property meets MPR and MPS without needing repairs..
Insurable with Repair Escrow	If the property requires no more than \$5000 repair escrow, the appraiser must state that the property is insurable with a repair escrow.
Uninsurable	If the cost of repairs is greater than \$5000, the appraiser must state that the property is uninsurable.

(f) Lead Based Paint If the appraiser observes defective paint in a home that was built before 1978, the appraiser will note all areas affective on the addendum.

- Repairs ≤ \$4000: HUD will stabilize (inspect and remedy) if under contract for FHA 203(b) financing
- Repairs >\$4000: HUD will not stabilize (will not inspect or remedy). If under contract for FHA financing, the loan is only insurable using under the 203(k) program.

Property Assessed Clean Energy (PACE)

For purchase transactions, the appraiser must review the sales contract and property tax records and report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

See Chapter 2C FHA Financing, 2C.6 Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.

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FHA Condominium Project Guidelines (02/17/20)

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Scope

The policies contained in this document apply to FHA Condominium Project Review Guidelines for all Proposed, Under Construction, and Existing, attached and detached Condominium projects.

Effective Date

The effective date of this revision is February 17, 2020.

Overview

This section outlines FHA Condominium project review requirements. Conventional, Non-Warrantable, and VA Condominium Project Review Requirements are outlined in additional documents found in the applicable Agency/Investor Property Underwriting Guidelines.

Definitions

Term	Definition
Certificate of Occupancy	A document issued by a local government agency or building department certifying a building's compliance with applicable building codes and other laws, and indicating it to be in a condition suitable for occupancy.
Commercial/Non-Residential Space	The area within a project and/or unit that is used for business purposes, e.g., office space, stores, restaurants, service outlets etc.
Complete Construction	Refers to a project consisting of units existing Less than One Year and are ready for occupancy, including completion of all the Infrastructure of the Project, and not subject to further rehabilitation or construction.
Complete Legal Phase	Refers to a Legal Phase in which all Units are built out and all Units have a CO or the equivalent
Condo Conversion	Changing the title of an existing structure generally under one title, to property that is separated into units so that the title to most units can be held separately. Examples: apartment complexes, churches, schools, warehouse.
Condo Legal Name	Name under which the condominium project appears in the legal documents and recorded in local and/or state public records.
Condotel	A building used in multiple ways, e.g. used as both a condominium and a hotel. When units are not in use by the legal owner, they can leverage the marketing and management done by the hotel chain to rent and manage the condo unit as it would any other hotel room.
Deed Restriction	A limitation that passes with the land regardless of the owner; usually limits the property's type or intensity of use.
DELRAP	Direct Endorsement Lender Review and Approval Process. This review process is permitted to be conducted by any DE Lender HUD approves to perform DELRAP reviews.
Exempt Units	Units in projects that are excluded from FHA Concentration calculations.
Existing Less than One Year Construction	Refers to a property that is 100% complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.
Federal Emergency Management Agency (FEMA)	A federal agency that provides assistance in areas that have suffered a major disaster or other emergency. It also maintains flood insurance rate maps that identify the special flood hazard areas where FHA requires flood insurance to obtain insurance endorsement.
FHA Concentration	Total units within a project with active FHA-insured mortgages or mortgages that were assigned case numbers.
Fidelity Bond	A type of bond that is obtained by an employer to protect against economic loss from dishonest acts of its employees
Fidelity Insurance	A type of insurance that a condo or PUD homeowner's association or a co-op corporation obtains to protect itself against economic loss from dishonest acts of anyone who either handles (or is responsible for) funds that the association or corporation holds or administers, whether or not that individual receives compensation for services.
Ground Rent	The amount of money that is paid for the use of land when title to a property is held as a leasehold estate, rather than as fee simple.
Gut Rehabilitation	Refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components.

Hazard Insurance (aka Property Insurance)	Insurance coverage that compensates for physical damage-by fire, wind, or other natural disasters-to the property.
Homeowner Association (HOA)	An organization consisting of homeowners within a condominium project for the purpose of managing the financial and common-area assets. Association boards are composed of homeowners elected at the annual meeting to maintain the common areas and enforce the governing documents.
HOA TIN	Taxpayer Identification Number (TIN) or, the Employer Identification Number (EIN) of the condominium project's homeowners' association.
HRAP	HUD Review and Approval Process. This process may only be performed by FHA Staff in one of the jurisdictional HOCs.
Jurisdictional HOC	HUD Homeownership Center (HOC) jurisdiction in which the condominium project is located: Atlanta, Denver, Philadelphia or Santa Ana.
Leasehold Interest	A form of property tenure where one party buys the right to occupy land or a building for a given length of time. As lease is a legal estate, "leasehold estate" (aka ground lease) can be bought and sold on the open market.
Legal Phasing	Also known as annexation is the process of adding units to a condominium project by amending the original declaration. Only projects undergoing construction are able to legally phase in unit(s).
Manufactured Home	Any dwelling built on a permanent chassis and attached to a permanent foundation system. Compliance with established standards will be evidenced by the presence of a HUD Data Plate that is affixed in a permanent manner near the main electrical panel or in another readily accessible and visible location. The towing hitch, wheels, and axles must be removed and the dwelling must assume the characteristics of site built housing. NOTE: While HUD allows manufactured home projects, Caliber has an overlay prohibiting them.
Master Association	A homeowners' association in a large condo project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second level" association that handles matters affecting the entire development, while the "first level" associations (aka sub associations) handle matters affecting their portions of the project.
Modular Homes	A construction system in which large prefabricated units are combined to create finished structure and treated as stick built construction. (NOT the same as Manufactured Homes; Modular built condominium homes are acceptable to Caliber).
New Construction (HUD definition)	Refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below: <ul style="list-style-type: none"> Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent. Under Construction refers to the period from the first placement of permanent material to 100% completion with no Certificate of Occupancy (CO) or equivalent. Existing Less than One Year refers to a Property that is 100% complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.
Phase I Environmental Site Assessment	The process by which a person or entity seeks to determine if a parcel of real property is subject to recognized environmental conditions.
Project Approval	The acceptance that is issued for a condominium project to indicate that the project's legal and physical characteristics and marketability are acceptable to FHA, and that mortgages on units within the project may receive FHA Insurance.
Proposed Construction	Refers to a property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
REO	Real estate owned by FHA or other lending institutions resulting from conveyance such as foreclosure.
Reciprocity Agreement	An agreement relating to the acceptance of information and/or documentation with relatively little or no review of either party's documentation.
Recorded Documents	Condominium project documents that were recorded with the local government or state, and available for public view.
Rent Control	Limits the rent an owner may charge for an apartment and restricts the right of any owner to evict tenants.
Rent Stabilization	Provides protections to tenants besides limitations on the amount of rent. Tenants are entitled to receive required services, to have their leases renewed, and may not be evicted except on grounds allowed by state law.
Reserve Study	A budget planning tool which identifies the status of the Reserve fund and a stable and equitable Funding Plan to offset the anticipated future major common area expenditures.
Site Condominium (FHA Definition)	A Project consisting entirely of single family detached dwellings with no shared garages, or any other attached buildings; or a Project that: <ul style="list-style-type: none"> Consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land; Does not contain any Manufactured Housing units; and Is encumbered by a declaration of condominium covenants or a condominium form of ownership.

	NOTE: Site Condominiums must have insurance and maintenance costs that are the sole responsibility of the Unit owner, NOT included in monthly HOA dues, excluding landscaping. When a project meets the above definitions, it does not require Condominium Project Approval or Single-Unit Approval.
Timeshare Condominiums	Also considered segmented ownership type projects, is a form of ownership or right to the use of a property, or the term used to describe such properties. These properties are typically resort condominium units, in which multiple parties hold rights to use the property, and each sharer is allotted a period in which they may use the property.
Under Construction	Refers to the stage from the first placement of permanent material to 100% completion with no CO or equivalent
Waiver	Permits an exception to a rule or guideline.
Working Capital Fund	A fund (consisting of liquid assets) that is set aside to enable the homeowners' association of a condo project to meet its liabilities for unforeseen expenditures or for the purchase of additional equipment or services.

Project Types Where Project Approval is NOT Required

Transaction or Project Type	Requirement
FHA/HUD REO (Real Estate Owned)	Project approval is not required for FHA/HUD Real Estate Owned (REO) loan transactions that will be FHA-insured. However, if the condominium project has an assigned Project ID, Lenders should enter this information when the FHA Case Number is requested.
FHA-to-FHA Streamline Refi's	Project approval is not required for FHA-to-FHA streamline refinance transactions, notwithstanding whether such transactions require an appraisal. However, if the project has an assigned Project ID, Lenders should enter this information when the FHA Case Number is requested.
Site Condominium (FHA definition)	<p>A project consisting entirely of single family detached dwellings with no shared garages, or any other attached buildings; or a Project that:</p> <ul style="list-style-type: none"> • Consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land; • Does not contain any Manufactured Housing units; and • Is encumbered by a declaration of condominium covenants or a condominium form of ownership. <p>NOTE: Site condominiums must have insurance and maintenance costs that are the sole responsibility of the unit owner, NOT included in monthly HOA dues, excluding landscaping.</p> <p>When a project meets the above definitions, it does not require Condominium Project Approval or Single-Unit Approval; HOWEVER:</p> <ul style="list-style-type: none"> • If required under HUD's Flood Insurance requirements for Condominium Project Approval, Flood insurance is required for the entire dwelling; and • Appraisal completed on FNMA Form 1073/FHLMC Form 465, Individual Condominium Unit Appraisal Report, evidencing all Units satisfy the Site Condominium definition is required. • HUD's Condominium Rider is required to be executed at closing. <p>NOTE: Condominiums that do not meet ALL these definitions will require full project approval.</p>

Condominium Project Approval Options

Single Unit Approval (SUA) Process

Refers to approval of a unit in a project that is NOT currently an Approved Condominium Project; therefore, if the subject project is already listed on FHA Connection as an unexpired, Approved project; and the approval will not expire prior to the subject unit's closing, an SUA is not required, because the project is already approved. So, check the Condo List on FHA Connection to see if the project has an unexpired approval.

Borrower Eligibility

To be eligible for Single-Unit Approval with maximum FHA financing, the subject mortgage application must receive an ACCEPT from TOTAL Mortgage Scorecard; otherwise the loan will have a maximum Loan-to-Value (LTV) of 90% (The 90% max LTV includes manually underwritten loans).

Property Eligibility

The project must:

- Have a CO (or equivalent) issued at least one year ago, or has previously been occupied;
- Have at least 5 Units (2-4 Unit projects must be submitted under DELRAP or HRAP only);
- Not be a Manufactured Home;
- Not be an Ineligible Project Type (a list of Ineligible Project Types are found in the Eligible/Ineligible Project Types Section below); and
- Is not located in an FHA Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase.

Requirements for Eligible Properties

- FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a project.
 - 10 or more-unit projects: FHA may suspend the issuance of new FHA case numbers for an SUA mortgage on a unit in a project when the FHA Insurance Concentration exceeds 10% of the units.
 - Less than 10 (and at least a 5) - unit project: cannot exceed 2 units approved under an SUA.
- Owner Occupancy must be at least 50% of the total number of Units
 - Calculation: included in the numerator -
 - Multi-phased project: the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or
 - Single-phased project: all the following:
 - Any unit occupied by the owner as his/her residence for any portion of the calendar year, and is not rented for most of the calendar year;
 - Any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his/her residence for any portion of the calendar year and is not rented for most of the calendar year; or
 - Any Unit sold to an owner who intends to occupy the unit as his/her residence for any portion of the calendar year and has no intent to rent the unit for most of the calendar year.
 - Calculation: included in the denominator –
 - Multi-phased project: the total number of units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
 - Single-phased project, all Units.
 - A Unit owned by the builder/developer is not an owner-occupied Unit
- Transfer of HOA Control from the developer/builder to the Unit Owners must be verified and the Covenants, Conditions, and Restrictions (CC&R) (aka Public Offering Statement – POS) were recorded.
- Financial Condition/Financial Stability refers to the ability of the HOA to meet the project's needs in the future through positive cash flow and adequately funded reserves.
 - The HOA must maintain separate accounts for Operating and Reserve funds;
 - The Reserve Account for capital expenditures and deferred maintenance must be funded with at least 10% of the annual HOA dues, unless a lower amount is supported based upon an acceptable reserve study;
 - Reserve Studies must:
 - Be completed in the last 36 months by a professional with demonstrated expertise in creating Reserve Studies; and
 - Include a site visit to the project
 - No more than 15% of the total units are units in arrears more than 60 days (does not include late fees or administrative expenses).
- Financial Distress Event refers to an HOA or builder/developer that has:
 - Sought protection under bankruptcy laws;
 - Been placed into receivership (mandated or voluntary);
 - Been subject to foreclosure or any seizure of assets by creditors; or
 - Offered a Deed-in-Lieu (DIL) of Foreclosure.

A project which had an HOA or builder/developer experience a Financial Distress Event within the last three years is NOT eligible for an SUA.

When a project had an HOA or builder/developer experience a Financial Distress Event greater than three years, a dated legal document evidencing Resolution of Financial Distress and a signed and dated explanation is required.

- Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party. Related Party includes any individual or Entity related to the Unit owner, including but not limited to:
 - An individual related to the Unit owner by blood, marriage or operation of law;
 - An individual serving as the Unit owners' officer, director, or employee; or
 - Unit owner direct parent, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.
 - 20 or more-unit project: The Individual Owner Concentration maximum is 10% or less.
 - Fewer than 20-unit project: the unit owner may not own more than 1 unit. No Related Party may own a unit.
 - Calculation:
 - All units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.
 - NOTE: The total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehabs must be used to calculate the Individual Owner Concentration.
- Insurance Coverage for SUAs is identical to HOA Master Insurance DELRAP/HRAP Requirements.
 - Insurance requirements are found in Caliber AllRegs under the General Credit and Documentation Requirements for Conventional & FHA Condominium and Conventional PUD units in Project Developments; and when applicable, Flood Insurance
- Commercial/Non-Residential Space
 - Definitions
 - Commercial/Non-Residential Space refers to floor area allocated to:
 - Retail and commercial square footage (excludes Live/Work Units);
 - Multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
 - Building common areas not reserved for the exclusive use of residential Unit owners; and
 - Any square footage that is owned by a private individual or Entity outside of the HOA.
 - Residential Space refers to floor area allocated to:
 - All Unit square footage;
 - All building common area square footage exclusively for the use of residential unit owners; and
 - All parking garage square footage allocated to residential Unit owners.

- Parking lot square footage is not considered Residential or Commercial/Non-Residential Space.
 - Total Floor Area refers to all Residential Space and Commercial/Non-Residential Space.
 - Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the project to be independently sustainable such that neither portion of the project is financially reliant on the other.
- Requirements:
 - Project's Commercial/Non-Residential Space must not exceed 35% of the project's total floor area and be verified through the recorded site Condominium Plan and CC&Rs.
 - Commercial/Non-Residential Financial Independence must be verified through recent Financial Statements from the HOA & Commercial/Non-Residential Entity
- Live/Work Project and Unit refers to a project that allows space within the individual unit to be used jointly for non-residential and residential purposes. A Live/Work unit refers to a unit in a Live/Work project that meets the definition of the unit type described in the previous sentence.
 - The project governing documents must allow Live/Work arrangements.
 - The individual Live/Work Unit must not contain more than 49% Commercial/Non-Residential Space.
- Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.
 - A project with units or Common Elements owned under a Leasehold Interest are eligible if the leasehold document(s) are reviewed, and they meet the following requirements:
 - The HOA must be the lessee under the lease.
 - The Common Elements lease provides that a default of the HOA does not result in a disturbance of any rights of the unit owners.
 - The lease provides the Mortgagee receives notice of any monetary or Non-Monetary Default by the HOA and is given the right to cure any defaults on behalf of the HOA.
 - The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
 - The HOA must not be in default under any provisions of the lease.
 - The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
 - The lease is renewable with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage.
- Litigation refers to a current or pending lawsuit or proceedings in a court arbitration, or mediation involving the project or HOA, or those concluded within 12 months of the application date.
 - Litigation does not include foreclosure or actions to collect past due assessments brought by the HOA or project as Plaintiff.
 - The Project or HOA must not be subject to litigation:
 - Relating to the project's safety, structural soundness, habitability, or functional use; or
 - Is not subject to any other Litigation risk not covered by insurance; or
 - exceeds the amount of insurance coverage relating to the potential losses for that matter.

FHA Case Number Assignments for Single Unit Approval (SUAs) Originations

(This process is outlined in detail in HUD's Mortgagee Letter 2019-13, titled: "Single-Unit Approval Process – Obtaining FHA Case Numbers for Single-Unit Approval Originations")

- To process a Case Number Assignment for a Single-Unit Approval:
 1. Follow the standard process for requesting a case number in FHAC for a condominium loan and complete the following fields in the Case Number Assignment screen:
 - a. Select the associated Condo ID, if one exists in the "PUD/Condo ID" field Note: (Condo IDs are FHA's identifier for the condo project and are listed in the Condo Lookup Section of FHAC when a project was previously reviewed by HUD or a DE Lender)
 - b. Then select "Single-Unit Approval" from the drop-down menu within the "Site Condo" field.
 - c. The Single-Unit Approval Case Number Assignment request will default into "Holds Tracking" and the user will be prompted to send the required information to the FHA Resource Center.
 2. Create an email addressed to: answers@hud.gov, with a Subject Line that must read: "SUA Holds Tracking".
 3. At a minimum, the following information must be included in the email request (NOTE: ALL required information listed below is asked for in HUD's Form 9991, HOA Questionnaire for SUAs, which can be found in Caliber AllRegs > Resources > Product Specific > Condo/HOA > HUD 9991 – Loan Level and SUA Review HOA Questionnaire.); so, if you have a correctly completed HUD Form 9991, you can attach it to this email and explain you attached a completed HUD Form 9991 that includes all required information);
 - a. Mortgagee Information
 - Mortgagee Name: Caliber Home Loans
 - Your Branch's/Site's FHAC Lender ID #:
 - Your Branch's/Site's Address including street, city, state and zip
 - Your Phone #
 - Your Name & Title
 - Your Email address
 - Your Fax #
 - b. HOA/Project Information
 - Project's complete Legal Name
 - Project Address including street, city, state and zip
 - Project's FHA Condo Approval ID Number, if applicable. (This only applies to projects whose status is/was:
 - Expired
 - Rejected
 - Withdrawn
 - c. HOA Information

- HOA Name (often differs from project’s name)
- HOA Tax ID #
- HOA Address including street, city, state and zip
- HOA Phone Number
- HOA Contact Name
- HOA Email Address
- HOA Fax #

d. Management Company Information, when applicable (NOTE: if the HOA is self-managed, and doesn’t have a management company, make sure you state that in the email; as HUD won’t know whether they’re self-managed or you just forgot to include the information; and will return the email to you stating your request is missing information. If the HUD 9991 Form is used, make sure the Management Co. Information Section of the form explains the project is self-managed; otherwise, HUD may make the same assumption.)

- Management Co. Name
- Management Co. Address including street, city, state and zip
- Management Co. Phone Number
- Management Co. Contact Name/Title
- Management Co. Email Address
- Management Co. Fax #

e. Total Number of Units in the Project

4. EACH SUA Request must be handled SEPARATELY. If you have multiple requests, each request requires separate emails.

The HOC processes the information to determine if a case number may be issued. Once the appropriate verifications are complete, the HOC provides a response when the Holds Tracking is removed. HUD will email the Requestor to notify them they are permitted to complete the FHA Case Number Assignment process, and to proceed with the SUA Review.

NOTE: A copy of HUD’s email notifying the Requestor they may proceed with the SUA Review is required PRIOR TO the Condo Team issuing a SUA; therefore, the HUD email is a required document for final SUA.

The case binder must contain all documentation relied upon by the Mortgagee to justify its decision to approve the Mortgage; therefore, all project documents and the HUD email are required as part of the loan file submitted to HUD for Insuring.

Direct Endorsement Lender Review and Approval Process (DELRAP)

- Project approval applications, annexations, and recertification submissions are reviewed and processed by qualified Direct Endorsement (DE) mortgagee staff. Caliber’s Condo Team is qualified to perform DELRAPs.
- NOTE: The condominium documentation requirements listed in subsequent sections are the same regardless of whether they are an HRAP or DELRAP review option.

HUD Review and Approval Process (HRAP)

- Project approval applications, annexations, and recertification submissions are reviewed and processed by FHA staff located at one of the four HUD Ownership Centers (HOCs) (see table below for details).

HOCs		Areas Served		
Atlanta	Alabama Illinois North Carolina	Caribbean Indiana South Carolina	Florida Kentucky Tennessee	Georgia Mississippi
Denver	Arkansas Louisiana New Mexico South Dakota Wyoming	Colorado Minnesota Nebraska Texas	Iowa Missouri North Dakota Utah	Kansas Montana Oklahoma Wisconsin
Philadelphia	Connecticut Maryland New Jersey Rhode Island	Delaware Massachusetts New York Vermont	District of Columbia Michigan Ohio Virginia	Maine New Hampshire Pennsylvania West Virginia
Santa Ana	Alaska Idaho	Arizona Nevada	California Oregon	Hawaii Washington

Projects Requiring HRAP (not permitted to go DELRAP)

The below project types are only eligible for HRAP; as DELRAP lenders are not permitted to perform a DELRAP when the project has any of the following characteristics (including but not limited to):

1. Newly converted projects if the conversion date is within 24 months of the project submission, including cooperative to condo conversions.
2. Existing Construction Condominium Projects that are greater than 12 months old, with an Owner Occupancy Percentage of at least 35% and less than 50%.
3. DELRAP projects listed as “Rejected” or “Withdrawn” on the FHA-approved condominium list
4. Projects that have completed a Resolution of Financial Distress Event more than 12 months but less than 36 months prior to submission date.
5. Rejected or Withdrawn projects under HRAP within the previous 12 months, FHA will reconsider the Condominium Project upon submission of

corrected or updated documentation.

- If the Project was Rejected or Withdrawn under HRAP more than 12 months ago, a Full Review under HRAP is required.

6. If the project was subject to adverse determination for significant issues as identified by FHA

7. Projects with Manufactured Homes; however, Caliber prohibits loans in projects with manufactured housing; therefore, the Condo Team will not accept a review request in a project consisting of manufactured homes.

Recertification Process

- Condominium project approvals issued prior to 10/15/2019, expire 2 years from the date of HRAP or DELRAP approval.
- Project approvals dated 10/15/2019 or later, expire 3 years from the date of the HRAP or DELRAP Approval. Further participation in the program after the 3-year period expires requires recertification to determine the project is still in compliance with HUD’s project eligibility requirements; and no conditions currently exists which would present an unacceptable risk to FHA.
- The Recertification Process begins 6 months prior to the approval expiration date with the availability to recertify until 6 months after the approval expiration.
- If the project has not recertified within either the 6 months before or 6 months after expiration, full project approval through HRAP or DELRAP is again required (or a Single Unit Approval (SUA) may be performed for an individual unit transaction. See SUA Section above for details).
- The HOC or DELRAP Lender (based on project characteristics) must process a recertification as follows:
 - The HOC or DELRAP Lender determines the date the project was initially approved
 - This is checked in FHA Connection or on the public web site located at: <https://entp.hud.gov/idapp/html/condlook.cfm>
 - New FHA case numbers will not be assigned for those projects where the project approval expired and the project is not recertified or reapproved prior to the project expiration date; or the project is rejected through the recertification or full project approval process.
 - Recertification packages may be submitted by:
 - Caliber’s Condo Team
 - Builder, developer, HOA management company, or an attorney or project consultant who submits on behalf of one of the other referenced parties.
 - If recertification or project approval processed by the Condo Team is later withdrawn by FHA staff, loans closed by Caliber will not be endorsed for insurance.
 - Cases that were processed by other DELRAP Lenders can be endorsed until HUD withdraws the DELRAP approval; and the status becomes WITHDRAWN on FHA Connection.
 - Annexations cannot be reviewed and approved until the recertification or re-approval process is complete.
 - The recertification process must include all legal phases approved as of the review date, regardless of the previous approval date for each phase.
 - Projects previously Rejected or Withdrawn are ineligible for recertification. These projects must be submitted under HRAP; however, if the project meets the Single Unit Approval (SUA) requirements, lenders are permitted to use the SUA Process if the lender applies for and receives permission from HUD (via email) to proceed with an FHA Case # Assignment and SUA Review (see FHA Case Number Assignments for Single Unit Approval (SUAs) Originations Section above for more information).

FHA Case Number Assignments for Recertifications, DELRAP & HRAP

- When a new Recertification or Full Review HRAP or DELRAP is required, FHA case numbers cannot be requested until AFTER the project is Approved.
- Expired, Withdrawn or Rejected projects will not receive case numbers until the subject project is Approved.
 - HUD reserves the right to suspend case numbers in a project exceeding the FHA concentration percentage of 50% at any time; therefore, when a project’s FHA concentration percentage exceeds 50%, when a case number is requested, HUD may arbitrarily decide to suspend the issuance of case numbers in the subject project based on the information HUD has regarding the FHA concentration percentage.
- It is against HUD’s, FHA’s and Caliber Home Loan’s policy to request a case number for a loan whose subject property is in a condominium project that does not have an unexpired FHA approval.
 - Contact the Condo Team if you have any questions regarding this policy, as HUD requires all lenders to strictly enforce this policy.
- Exceptions to this requirement are for FHA-to-FHA streamline refinance transactions cited above and those projects meeting the site condominium definition and requirements (see Site Condominiums in the table under “Project Approval NOT Required” Section above).

Processing Time for HRAP, DELRAP, Recertifications & SUA

Type	Review Processing Time & Special Considerations
HRAP	<ul style="list-style-type: none"> • Initial Processing Time at HUD: Generally, up to 30 calendar days from the receipt date of the package by the jurisdictional HOC subject to available resources and volume of project approval submissions received. • Reconsideration Processing Time: Generally, up to 30 calendar days from the receipt date of the reconsideration package by the jurisdictional HOC subject to available resources and volume of project approval submissions received. <p>Note 1: Processing times depend on the receipt of all documentation, acceptability of the submitted documentation, and whether an environmental site review is required for proposed or under construction projects.</p> <p>Note 2: HUD requires Lenders to wait 30 calendar days from HUD’s receipt date before inquiring about the status of the review. HUD will not issue a status on reviews less than 30 calendar days in their system.</p>
DELRAP	<ul style="list-style-type: none"> • 5 to 7 business days from the date the Condo Team receives ALL required documents. • When Caliber’s Condo Team issues a condominium project denial, any reconsideration documentation for the first 12 months from the date of the denial must be submitted to the jurisdictional HOC for review and disposition.

	<p>Note: ALL DELRAP approvals are subject to a 10-business day waiting period after the DELRAP approval is issued before an FHA loan may close.</p> <ul style="list-style-type: none"> • The reason for this policy is All DELRAP approvals are uploaded to FHA Connection and may be subject to HUD's Review. • If HUD's review determines a DELRAP approval should not have been issued, HUD has the right to revoke the DELRAP approval and put the project into Rejected status; meaning if an FHA transaction is closed in the project by the submitting lender when the project is rejected, HUD will not insure the loan upon delivery; and the lender must indemnify HUD for the loan. • If HUD doesn't contact the lender by the 10th business day after submission, the lender may assume HUD accepted the Lender's DELRAP approval.
Recertification	<ul style="list-style-type: none"> • Most Recertifications can be processed by the Condo Team • If the Condo Team can process the Recertification, the DELRAP processing times listed above apply; however, if the Condo Team finds the project must be processed through HRAP, the HRAP processing times apply.
Single Unit Approval (SUA)	<ul style="list-style-type: none"> • SUAs may be processed by the Condo Team • 5 to 7 business days from the date the Condo Team receives ALL required documents. <p>Note: Since the process to receive a Case Number Assignment approval from HUD for an SUA is very different than DELRAP & HRAP; and the Case Number Assignment must be completed PRIOR TO the Condo Team's issuance of the SUA, there could be significant time delays by HUD in responding to a Case Number Assignment request. Consult the Condo Team for additional details on possible SUA delay.</p>

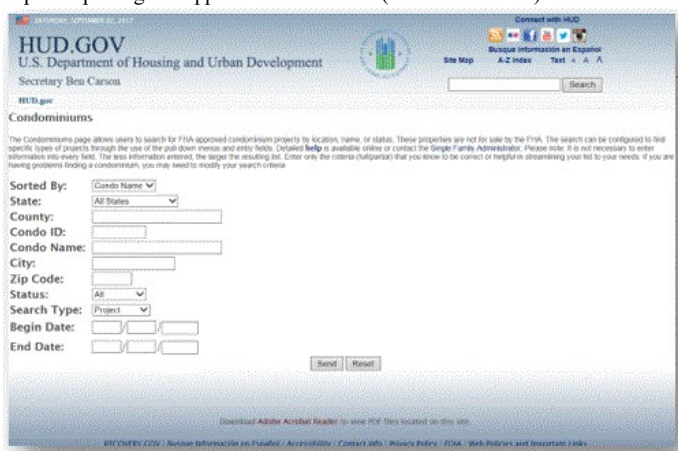
Eligible Submission Sources

The following entities may submit either directly to the jurisdictional HOC or a DELRAP Participating Lender (Caliber's Condo Team):

- Builder/Developer
- Homeowner's Association (HOA)/Management Company (MC)
- Project Consultant or Attorney acting as an agent for the developer/builder

FHA Condominium Look Up

- HUD.gov includes a condominium page allowing users to search for FHA reviewed projects by location, name, or status at: <https://entp.hud.gov/dapp/html/condlook.cfm> (screen shot below)



- There are thousands of previously approved, expired, rejected, and withdrawn projects in HUD's database. The database should be searched as soon as it is determined the transaction is FHA; and the subject unit is in a condominium project.

Requirements for Approved Projects

As of October 15, 2019, when a project is approved in FHA Connection, and the loan is closing prior to the project approval expiration date, HUD requires the following documentation:

NEW HUD-9991 FHA Condominium Loan Level/Single-Unit Approval Questionnaire & Checklist

- Portions of this questionnaire must be completed and executed by the subject HOA/Management Co., and Lender. A hyperlink to this form is posted in Caliber's AllRegs > Resources > Product Specific > Condo/HOA > HUD 9991 FHA Condominium Loan Level/Single-Unit Approval Questionnaire & Checklist. The hyperlink takes you to the HUD.gov site where this form is posted.

Lender Certification for Individual Unit Financing

- The DE Underwriter uses the information from the Questionnaire Form HUD-9991 to complete the Lender Certification form (also posted at

Caliber's AllRegs > Resources > Product Specific > Condo/HOA > Lender Certification for Individual Unit Financing) at the time the loan is underwritten.

- The DE Underwriter answers questions regarding:
 - Investor ownership
 - Percentage of owners in arrears for condominium association fees, and
 - Owner-occupancy ratio (which can be as low as 35% of the total units when the project has an unexpired Approval that won't expire prior to the closing.)
- All FHA Condo Loan files must include a DE Underwriter completed, fully executed Lender Certification for Individual Unit Financing in each case binder submitted for FHA insurance endorsement verifying the following:
 1. The condominium unit connected to the specific loan file is in a project that appears on FHA's list of approved condominium projects as of the date the FHA case number was assigned;
 2. To the best of his/her knowledge (DE Underwriter) and belief, the information and statements contained in this application are true and correct;
 3. The Lender has no knowledge or circumstances or conditions that might have an adverse effect on the project or cause a mortgage secured by a unit in the project to become delinquent (including but not limited to defects in construction; substantial disputes or dissatisfaction among unit owners about the operation of the project or the owner's association; and disputes concerning unit owners' rights, privileges, and obligations); and
 4. The Lender reviewed and verified the project's continued compliance with the initial approval requirements and verified that the investor ownership, percentage of owners in arrears for condominium association fees and owner-occupancy meets FHA requirements.
- The following requirements must also be met:
 5. The required certification must be executed (signed/dated - signature stamps or electronic signatures are not permitted) by the DE Underwriter or other mortgagee representative authorized to bind the company when the loan approval decision is made (i.e., the appraisal has been reviewed, the borrower(s) is/are approved and the loan is ready to close – if there are any conditions, they are conditions to be satisfied at closing).
 6. The executed (signed/dated) certification must have been executed within the 30 days prior to the date of closing, or a new certification must be executed (signed/dated – signature stamps or electronic signatures are not permitted).
 7. The required certification cannot be executed (signed/dated) after the loan closed.

Project Eligibility for Recertification, DELRAP & HRAP

New HUD 9992 - FHA Full Review HOA Questionnaire & Checklist Now Required as of 10/15/2019

- Effective 10/15/2019: All projects submitted under a Recertification, DELRAP or HRAP must include a fully completed and executed HUD-9992 Form, a link to which is found in Caliber AllRegs > Resources > Product Specific > Condo/HOA > HUD 9992 - FHA Full Review HOA Questionnaire & Checklist. NOTE: This new FHA HOA Questionnaire requires an HOA's authorized representative to complete certain sections of the questionnaire; AND other sections the Lender completes. If this Form isn't included in the submission, HUD will reject the submission as incomplete, which further delays the process. Therefore, please ensure you forward a copy of this form to the HOA's authorized representative for completion. This form also has a document checklist the HOA needs to provide. In cases where the HOA refuses to use HUD's Questionnaire, HUD will accept a copy of the HOA's Questionnaire, but it must be accompanied by HUD's Questionnaire completed by the Lender using the HOA's Questionnaire as its source for answers; so, if the HOA's questionnaire doesn't answer all the questions HUD's Questionnaire asks, the HOA needs to answer the questions not included on their questionnaire prior to submitting the package to the Condo Team.

Project Classifications and Ineligible Characteristics

Project Classifications (eligible for Condominium Project Approval) include:

- Existing Construction;
- Complete Condominium Project;
- Conversions:
 - Gut Rehab (completed)
 - Non-Gut Rehab
- Two- to Four-Unit Condominium Project;
- Manufactured Housing (HUD permits; but Caliber has an overlay prohibiting manufactured housing in condominium projects); and
- Leasehold Interest

Ineligible Project Characteristics

- FHA will not approve Condominium Projects with the following characteristics:
 1. Cooperative ownership;
 2. Condominium hotel or condotel;
 3. Mandatory rental pooling agreements that require Unit owners to either rent their units or give a management firm control over the occupancy of the Units;
 4. Timeshare or segmented ownership projects;
 5. Multi-dwelling condominiums (more than one dwelling per Condominium Unit under one deed);
 6. Houseboat project;
 7. Continuing care facility;
 8. Coastal Barrier Resources System location; or
 9. Subject to adverse determination for significant issues as identified by FHA.

Phasing

Refers to projects legally declared in separate stages by amending and recording the governing documents.

- Legal Phases refer to specific phases of a project that allow additions to the project and are defined by state authority.
 - Projects may be approved in stages as Legal Phases are completed; however, all completed Legal Phases must be evaluated.
 - Each Legal Phase must be complete as demonstrated by the Certificate of Occupancy (CO) or its equivalent prior to submission of a Legal Phase.
 - Legal Phases may be submitted for New Construction and Conversion (both Gut and Non-Gut Rehabilitation) projects.
 - The submitted Legal Phases must be independently sustainable without future planned Legal Phases, as demonstrated by the budget and financial documentation, such that the submitted Legal Phases of the project will not be jeopardized by the failure to complete additional Legal Phases.
 - For vertical buildings, legal Phasing is acceptable if:
 - All units in the phase are built out; and
 - At least a temporary CO, or its equivalent, was obtained for the units.
 - For Detached and Semi-Detached Buildings Phasing is acceptable if:
 - All units in the phase are built out; and
 - At least a temporary CO, or its equivalent, has been obtained for the units.
- Documentation verifying all Legal Phases were submitted for approval and are independently sustainable must be submitted along with:
 - The CO or its equivalent for each Unit in the Legal Phase; or
 - A temporary CO or its equivalent.

General Condominium Project Approval Requirements

These general requirements apply to all construction types, including Existing Construction Projects. Additional or different standards may apply for certain construction types.

- To be eligible for Condominium Project Approval, the Condominium Project must be:
 - Primarily residential in nature and not be intended for Rental for Transient or Hotel Purposes;
 - Consist only of one-family Dwelling Units
 - In full compliance with all applicable federal, state, and local laws with respect to zoning, fair housing, and accessibility;
 - Complete and ready for occupancy; and
 - Reviewed and approved by the local jurisdiction.
- The project must also meet the following requirements in this section. Recorded Documents refer to the project's legal, project and governing documents required to operate legally as required by state and local law.
 - Must be recorded in accordance with applicable state and local law to ensure the project meets the legal and operational requirements in the local jurisdiction; and
 - Copies of these recorded documents must be included with the project submission.

FHA Insurance Concentration

Refers to the number of FHA-insured Mortgages within a Project. FHA may suspend project eligibility of projects where the FHA Insurance Concentration is greater than 50% of the total units in the project.

Owner Occupancy Percentage

Refers to the percentage of units considered owner-occupied as shown in the calculation below.

- Existing Construction
 - The acceptable level of Owner Occupancy Percentage is at least 50% of the total number of Units.
 - Exception for Existing Construction
 - For Projects that are greater than 12 months old, with an Owner Occupancy Percentage of at least 35% and less than 50% are eligible for HRAP approval only with the following conditions:
 - No more than 10% of the total Units are Units in Arrears greater than 60 days (does not include late fees or other administrative expenses).
- New Construction - Complete Condominium Projects
 - For Complete Condominium Projects and Gut Rehab conversions, the acceptable level of Owner Occupancy Percentage is at least 30% of the total number of declared Units in the Condominium Project
- Calculation of Owner Occupancy Percentage ONLY:
 - Multi-phased project: includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or
 - Single-phased project, all the following units in the numerator of the calculation:
 - Any unit occupied by the owner as his or her residence for any portion of the calendar year and is not rented for most of the calendar year;
 - Any unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her residence for any portion of the calendar year and is not rented for most of the calendar year; or
 - Any Unit sold to an owner who intends to occupy the unit as his or her residence for any portion of the calendar year and has no intent to rent the Unit for most of the calendar year.
 - Units in the denominator:
 - Multi-phased project: the total number of units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
 - Single-phased project: all Units.
 - A Unit owned by the builder/developer is not an owner-occupied Unit.

Transfer of Control

Refers to the shift of existing control over the HOA from the developer/builder to the Unit owners.

Control of the HOA refers to the ability to directly or indirectly control, direct, modify or veto any action of the HOA.

- The legal documents must:
 - Require Transfer of Control from the developer/builder to the Unit owners;
 - Specify the conditions for Transfer of Control;
 - Indicate the number of Units in the Condominium Project; and
 - be recorded, as applicable, in the CC&R, declaration, master deed, condominium plat, and/or condominium site plans.
- The developer/builder must relinquish control to the HOA no later than the earlier of the following:
 - 120 days after the date 75% of the units in the project were conveyed to unit owners;
 - Three years after completion of the project as evidenced by the first conveyance to a unit owner; or
 - The time frame regarding Transfer of Control established under state or local condominium laws, if applicable.
- Any contracts entered by the builder/developer prior to the Transfer of Control and subsequently assigned to the HOA, must give the right to HOA to terminate the contracts with no more than 90 days' notice
- The following documentation must be submitted for Transfer of Control:
 - Documentation verifying compliance with the Transfer of Control requirements;
 - Recorded CC&Rs, declaration, and/or master deed, and all amendments;
 - Signed and adopted bylaws; and
 - Articles of incorporation, articles of association, declaration of trust, or other governing documents, if applicable and in accordance with state law

Financial Stability

Refers to the ability of the HOA to meet the project's needs in the future through positive cash flow and adequately funded reserves.

- Projects must demonstrate Financial Stability. FHA requires projects to have financial documents that itemize and address income and expenditures sufficient and pertinent to the project including:
 - An operating income that demonstrates a stable income stream over the past two years with decreases of no higher than 15%;
 - Ability to cover the cost of insurance coverage and deductibles;
 - A Reserve Account for capital expenditures and deferred maintenance that is funded with at least 10% of the aggregate monthly unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;
 - Evidence the budget provides for the periodic funding to maintain the Reserve Account balance of at least 10% of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study;
 - Evidence that no more than 15% of the total Units are Units in Arrears more than 60 days (does not include late fees or other administrative expenses); and
 - Financial records that are consistent with the application package, including special assessments, loans, or other financial variations.
 - If a reserve study is required to justify a Reserve account funded less than 10%, it must:
 - Be 36 months old or less;
 - Include a site visit;
 - Demonstrate the project has adequate funded reserves that provide financial protection for the project equivalent to the Reserve requirements;
 - Demonstrate the project's funded Reserves meet or exceed the recommendations included in the reserve study; and
 - Be prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies.
 - The project demonstrates Financial Controls by:
 - Maintaining separate accounts for Operating and Reserve funds;
 - Requiring the HOA's management company to maintain separate records and bank accounts for the HOA; and
 - Restricting the management company from drawing checks on, or transferring funds from, the Reserve account of the HOA without approval from the HOA.

Financial Controls

Refer to the financial policies and procedures that an HOA has in place to protect its funds from fraud and mismanagement.

A Financial Distress Event

Refers to a Project or builder/developer that has:

- Sought protection under bankruptcy laws;
- Been placed into receivership (mandated or voluntary);
- Been subject to foreclosure or any seizure of assets by creditors; or
- Offered a DIL of Foreclosure.

Resolution of Financial Distress Event

- Refers to:
 - Bankruptcy discharge;
 - Termination of receivership;

- Issuance of foreclosure judgment; or
- Execution of DIL of Foreclosure.
- An HOA or builder/developer that completed a Resolution of Financial Distress Event within 12 months prior to the application date is not eligible for initial approval or recertification.
 - If the Resolution of Financial Distress Event was completed more than 12 months but less than 36 months, the application package must be submitted through HRAP for evaluation.
 - If there has been a Resolution of Financial Distress Event within the last 36 months, the HOA or builder/developer must demonstrate the cause has been resolved and a Financial Distress Event is unlikely to recur.

Individual Owner Concentration

Refers to the percentage of Units owned by a single owner or Related Party

- Related Party includes any individual or Entity related to the Unit owner, including but not limited to:
 - An individual related to the unit owner by blood, marriage or operation of law;
 - An individual serving as the Unit owners' officer, director, or employee; or
 - A unit owner, direct parent, subsidiary, or any related Entity with which the unit owner shares a common officer or director.
- Projects with 20 or more units: 10% or less Individual Owner Concentration
- Projects with less than 20 units: one unit per owner. No Related Party may own a Unit.
- Calculation:
 - Multi-phased project: is based on the total number of units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
 - Single-phased project, all units are used in the denominator, except that unoccupied and unsold units owned by a builder/developer are excluded from the numerator and denominator.
 - For Complete Condominium Projects and Gut-Rehab: the total number of declared units in the Condominium Project must be used.

Projects Subject to Additional Phasing

Must contain arrangements that guarantee the future completion of all facilities and Common Elements; and must demonstrate positive cash flow from the revenue and expenditures of the completed Legal Phases and Common Elements.

Projects with Commercial/Non-Residential Space

- Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the project to be independently sustainable such that neither portion of the project is financially reliant on the other.
 - The following documentation must be submitted:
 - Documentation verifying Commercial/Non-Residential Space Financial Independence and compliance with Phasing requirements;
 - Current year's budget approved by the HOA board;
 - YTD Income and Expense Statement dated within 90 Days if the prior YTD actuals are more than 90 Days old;
 - Income and Expense Statement for the previous year's actual year-end results;
 - Current Balance Sheet dated within 90 Days prior to the date of submission;
 - If applicable, documentation supporting any loans or special assessments, including information regarding the purpose, term, payment status, total amount of the assessment, amount of the assessment per Unit and overall impact on marketability and value of the property;
 - If applicable, a dated legal document evidencing Resolution of Financial Distress Event and a letter of explanation describing the cause of the event and measures taken by the HOA to prevent a future Financial Distress Event; and
 - Evidence of financial arrangements that guarantee the future completion of all facilities and Common Elements, as applicable.
- The project's Commercial/Non-Residential Space must not exceed 35% of the project's Total Floor Area.
 - Commercial/Non-Residential Space refers to floor area allocated to:
 - Retail and commercial square footage (excludes Live/Work Units);
 - Multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
 - Building common areas not reserved for the exclusive use of residential unit owners; and
 - Any square footage that is owned by a private individual or entity outside of the HOA.
 - Residential Space refers to floor area allocated to:
 - All Unit square footage;
 - All building common area square footage exclusively for the use of residential Unit owners; and
 - All parking garage square footage allocated to residential unit owners.
 - Parking lot square footage is not considered Residential or Commercial/Non- Residential Space.
 - Total Floor Area refers to all Residential Space and Commercial/Non-Residential Space.
 - Exception Consideration:
 - The project's Commercial/Non-Residential Space may exceed 35% of the project's Total Floor Area up to a maximum of 49% if it is determined the residential character of the project is maintained.
 - To determine the residential character is maintained, the economy for the locality of the project or specific to the project and the total number of residential units in the project must be considered.
 - An opinion from a certified residential appraiser that addresses market acceptance of the project as residential in character;
 - Current market study performed by an independent third party that addresses factors relating to the economy for the locality of the project or specific to the project; and
 - The total number of residential Units in the project.
 - The following documentation is required for ALL Commercial/Non-Residential Space:

- Documentation verifying compliance with the requirements for the Commercial/Non-Residential percentage and any exceptions;
- Budget and financials;
- Recorded condominium site plans;
- CC&Rs; or
- If applicable, exception documentation

HOA Master Insurance Requirements for Recertifications, DELRAPs & HRAPs

- All FHA HOA Master Insurance requirements are found in Caliber AllRegs under the General Credit and Documentation Requirements, Property Insurance section, under “Conventional & FHA Condominium and Conventional PUD units in Project Developments” and “Flood Insurance”.

Live/Work Units

- Allow space within the individual Unit to be used jointly for non-residential and residential purposes.
 - The project’s governing documents must allow Live/Work arrangements.
 - All individual Live/Work Units must not contain more than 49% Commercial/Non-Residential Space.
 - The following documentation must be submitted:
 - Documentation verifying the Live/Work requirements were met; and
 - Recorded CC&Rs

Leasehold Interests

Refers to real estate where the residential improvements are located on land that is subject to a long-term lease from the underlying fee owner, creating a divided estate in the property.

- Projects with Common Elements owned under a Leasehold Interest are eligible if the lease meets the following requirements:
 - The HOA must be the lessee under the lease;
 - The lease of the Common Elements provides that a default of the HOA does not result in a disturbance of any rights of the unit owners;
 - The lease provides the Mortgagees receive notice of any monetary or Non-Monetary Default by the HOA and be given the right to cure any defaults on behalf of the HOA;
 - The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements;
 - The HOA must not be in default under any provisions of the lease; and
 - The lease does not include any default provisions that could result in forfeiture or lease termination except for nonpayment of lease rents.

Recreational Leases/Easement

Refer to separate ownership of recreational facilities at a project with the owner leasing its use to the Unit owners. An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

- Projects with Recreational Leases/Easements are acceptable under the following circumstances:
 - If the Recreational Lease or Easement holder is a nonprofit Entity under the Control of the HOA; or
 - If each unit owner has the right to cancel the membership with no more than 90 Days’ notice and without penalty.

Management Agreement

Refers to an agreement between a third-party company and the HOA to manage the project.

- If the HOA employs the services of a management company, the management agreement must give the HOA the right to terminate the management agreement with no more than 90 Days’ notice.

Existing Contracts

Refer to contracts executed prior to the Transfer of Control to the HOA

- Any contracts entered into by the builder/developer prior to the Transfer of Control and subsequently assigned to the HOA, must give the HOA the right to terminate the contracts with no more than 90 Days’ notice.
 - This does not apply to ground leases or contracts in which the HOA or Unit owners are granted a possessory or ownership interest in real estate.
 - Documentation to verify compliance with the requirements for Existing Contracts must be submitted.

Litigation

Refers to a current or pending lawsuit or court proceeding, arbitration, or mediation involving the Project or HOA, or those concluded within 12 months of the application date.

- Litigation does not include foreclosure or actions to collect past due assessments brought by the HOA or project as Plaintiff.
- The project or HOA must not be subject to pending litigation in which the project sponsor is named as a party that relates to the project’s safety, structural soundness, habitability, or functional use.
- The project or HOA must not be subject to any other litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

- The following documents must be submitted:
 - Documentation verifying compliance with the requirements for pending litigation or any other litigation risk.
 - A signed and dated explanation from the HOA, management company, or an attorney representing the HOA that includes at least the following information:
 - Reason(s) for the Litigation;
 - Risk of the Litigation;
 - Anticipated settlement/judgment date, if any;
 - Sufficiency of insurance coverage to pay out a settlement/judgment, if applicable; and
 - Impact of the litigation on the future solvency of the HOA;
 - Additional information may be required based on the litigation particulars once the initial information is reviewed.

Legal Restrictions on Conveyance (Free Assumability) aka Leasing Restrictions

Have the same meaning as defined in 24 CFR § 203.41. The project must not contain units encumbered by restrictions on conveyance in violation of the requirements contained in 24 CFR § 203.41, subject to certain enumerated exceptions provided below. The project's organizing documents may contain one or more of the following provisions:

- All leases must be in writing and subject to the declaration and bylaws of the project.
- The HOA may request and receive a copy of the sublease or rental agreement.
- The HOA may request the name(s) of all tenants including the tenants' Family Members who will occupy the Unit.
- Unit owners are prohibited from leasing their units for initial terms of less than 30 Days.
- The HOA may establish a maximum allowable lease term.
- The HOA may establish a maximum number of rental Units within the project; however, the percentage of rental Units may not exceed the current FHA Condominium Project owner-occupancy requirement.
- The HOA may not require that a prospective tenant be approved by the HOA and/or its agent(s), including but not limited to meeting creditworthiness standards.
- The HOA may have the right of first refusal to purchase or lease any Unit only if it does not violate discriminatory conduct prohibitions under the Fair Housing Act regulations at 24 CFR part 100.
- It is the responsibility of the submitter to address any questions regarding eligibility issues with their attorney or the appropriate agency.

Deed Restrictions

- The regulations at 24 CFR 203.41 state that properties with FHA-insured mortgages shall be free of restrictions that prevent the borrower from freely transferring the property. The regulations use the term "legal restrictions on conveyance" to describe such restrictions and this term is broadly defined to include provisions in any kind of legal instrument that would cause a conveyance (including a lease) by the borrower to:
 - Be void, or voidable by a third party.
 - Be the basis of contractual liability of the borrower.
 - Terminate, or subject to termination, the borrower's interest in the property.
 - Be subject to the consent of a third party.
 - Be subject to limits on the amount of sales proceeds a borrower a borrower can retain.
 - Be grounds for accelerating the insured mortgage.
 - Be grounds for increasing the interest rate of the insured mortgage.

If the conveyance could cause any of these things to occur, the property is subject to legal restrictions on conveyance and is usually ineligible for FHA mortgage insurance.

Exceptions for Affordable Housing Units

- Legal restrictions on conveyance for eligible government or nonprofit affordable housing programs are acceptable if:
 - The government or eligible nonprofit program restriction meets the exceptions defined in 24 CFR § 203.41(c) and (d); and
 - The affordable housing units are identified by recorded legal documents, specifying the Units that are covered under the program.
 - If the units are not defined within the recorded condominium declarations, an amendment to the legal documents must be prepared and recorded or an executed (signed and dated) document identifying the affordable units must be issued by the affordable housing program staff and recorded.
- In accordance with 24 CFR § 203.41 (d)(1)(ii), FHA considers a reasonable share of appreciation to be at least 50%. HUD does not object to affordable housing programs whereby the homeowner's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50% of the appreciation.
 - If the program sets a maximum sales price restriction, the Borrower must be permitted to retain 100% of the appreciation.
- Condominium project approvals containing affordable housing rental programs operated directly by or managed through eligible nonprofit organizations or governmental agencies may be eligible if all FHA approval requirements are met.

Exceptions for Private Transfer Fees

- Notwithstanding the policy of free assumability with no exceptions contained in 24 CFR § 203.41, properties with private transfer fee covenants are acceptable provided such covenants are Excepted Transfer Fee Covenants as provided in 12 CFR § 1228.

Construction Types

1. New Construction refers to Proposed Construction, Properties (or projects) Under Construction, and Properties Existing Less than One Year as

defined below:

2. Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
3. Under Construction refers to the stage from the first placement of permanent material to 100% completion with no CO or equivalent.
4. Existing Less than One Year refers to a Property that is 100% complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.
5. Complete Project refers to a project consisting of units Existing Less than One Year and are ready for occupancy, including completion of all the Infrastructure of the project, and not subject to further rehabilitation or construction.
6. Complete Legal Phase refers to a Legal Phase in which all Units are built out and all units have a CO or the equivalent.

Requirements for Construction Types

- Project/Legal Phase must be either a Complete Project or a Complete Legal Phase.
- For maximum financing the following documents are required:
 - Form HUD-92541 Builder's Certification of Plans, Specifications, & Site must be signed and dated no more than 30 Days after the appraisal was ordered and show any issues noted by the appraiser and builder/developer proposed mitigation plans.
 - Form HUD-92544, Warranty of Completion of Construction must be signed and dated by an authorized representative of the builder, as well as the borrower.
 - Evidence the property was pre-approved, with an Early Start Letter OR copy of building permit issued by local authority prior to start of construction;
 - Required inspections, as applicable;
 - Wood Infestation Report, unless the property is in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list;
 - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The Mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
 - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record is required when the proposed Property is treated with a soil chemical termiticide. The Mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
 - Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

New Construction Additional Requirements

- Financial Condition
 - If no units have closed in the project, a proposed budget is required.
 - All Financial Condition Required documentation is required if any unit has closed, except the Previous Year Income and Expense Statement.

Newly Converted Project

Is a project whose Date of Conversion (date the legal documents were recorded) is within 24 months of the time of project submission. Date of Conversion refers to the:

- Newly converted projects may only be processed under the HRAP option.

Gut Rehabilitation Conversion (Gut Rehab)

Refers to the renovation of a property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components

- Gut Rehabs must meet the general FHA Condominium Project Approval Requirements and New Construction standards.
- The following documents must be submitted:
 - Documentation verifying compliance with the requirements for Gut Rehab;
 - An engineering or architectural inspection, dated within 12 months, evidencing all rehabilitation work/repairs have been completed; and
 - A CO or its equivalent.

Non-Gut Rehabilitation (Non-Gut Rehab)

Refers to rehabilitation work that is not structural and is limited to minor property repairs and improvements.

- Non-Gut Rehabs must meet the standards for Existing Construction.
- A reserve study must be 36 months old or less and have been prepared by an independent third party that has demonstrated knowledge of and experience in completing reserve studies. The reserve study must include analysis of the Non- Gut Rehab.
- All Non-Gut Rehab work/repairs must be completed.
- The following documents must be submitted:
 - Documentation verifying compliance with the requirements for Non-Gut Rehab;
 - Reserve study; and
 - Evidence all rehabilitation work/repairs have been completed.

Two- to Four-Unit Condominium Project

Refers to a project that comprises of at least two, but no more than four, one-family dwelling units that are each separately owned with separate legal

descriptions.

- All general FHA Condominium Project Approval requirements are applicable except:
 - If state law does not require the creation of an annual budget or annual financial statements, a signed and recorded memorandum of understanding may be provided in lieu of the financial documents.
 - The memorandum of understanding must define the individual Unit owner's responsibilities for maintenance/repair/replacement of common areas including sidewalks, driveways, and common walls (includes side by side or vertical type Units) and must provide for a procedure for splitting any shared maintenance costs;
- The project must have an Owner Occupancy Percentage of 75% owner-occupied; and
- No Units in Arrears.
- Documentation to verify compliance with the Two-to Four Unit Condominium Project requirements; annual budget, financial statements or memorandum of understanding if applicable; and documented evidence each unit is separately owned with a separate legal description is required.

NOTE: Both FNMA & FHLMC no longer require a project review on a Two- to Four-Unit Project; so, if the applicant(s) can qualify for a Conventional loan, a project review is not required. The HOA only needs to follow their legal document requirements for Property and Flood (if applicable) Insurance.

Environmental Review Requirements: Proposed or Under Construction ONLY

- A Phase I Environmental Site Assessment (ESA) performed in accordance with ASTM E-1527-05 "Standard Practice for Environmental Site Assessments" must be included in the project approval package submitted to FHA.
 - The Phase I ESA must not predate the condominium approval submission by more than 12 months and must be updated, as described in ASTM 1527- 05, if between 180 days and 12 months.
 - If a mortgagee elects to use the HRAP option, environmental reviews will be required for projects that, at the time condominium project approval is requested, have not progressed beyond a stage of construction where HUD has any influence over the remaining uncompleted construction. If an environmental review is required, it will be performed by HUD staff. This occurs when:
 - A condominium plat or similar development plan and any phases delineated therein were reviewed and approved by the local jurisdiction and, if applicable, recorded in the land records, and
 - The construction of the project's infrastructure (streets, storm water management, water and sewage systems, utilities), and facilities (e.g., parking lots, community building, swimming pools, golf course, playground, etc.) and buildings containing the condominium units has proceeded to a point that precludes any major changes.
- An environmental review will not be required for condominium projects approved using the DELRAP option; however, for proposed or under construction projects, the DELRAP lender must obtain a Phase I ESA as discussed above.
 - Also, if issued by the local municipality, a Building Permit or its equivalency must also be included in the project approval package submitted to FHA.
- For all construction types, if the appraiser identifies an environmental condition or the mortgagee is aware of an existing environmental condition through remarks provided on the Builder's Certification, Form HUD-92541, the appraisal or other known documentation, the mortgagee must avoid or determine that there are mitigants to address the following conditions before completing its review process:
 1. The project is in a Special Flood Hazard Area designated on a Federal Emergency Management Agency flood map.
 2. Potential noise issues, where the property is located within 1000 feet of a highway, freeway, or heavily traveled road, within 3000 feet of a railroad, or within one mile of an airport or five miles of a military airfield.
 3. The property has an unobstructed view, or is located within 2000 feet, of any facility handling or storing explosive or fire-prone materials.
 4. The property is located within 3000 feet of a dump or landfill, or of a site on an EPA Superfund (NPL) list or equivalent state list, or a Phase I ESA indicates the presence of a Recognized Environmental Condition or recommends further environmental site assessment (Phase II ESA) for the presence of contaminants that could affect the site.
 5. The property has any hazards or adverse conditions listed in Section 1.f. of the Builder's Certification, including, but not limited to, high ground water levels, unstable soils, or earth fill.
 6. The project is in a wetland designated on National Wetlands Inventory maps or designated by State or local authorities.
 7. The project is on the National Register of Historic Places or is within a historic district listed on the Register.
 - a. A request should be made to the State Historic Preservation Officer (SHPO) who has a right to comment on the proposal.
 - b. The request should consist of a narrative explaining the proposal and it should be made as early as possible in the development process.
 8. The appraiser or DE lender is aware of any other condition that could adversely affect the health or safety of the residents of the project.

Building Permit/Certificate of Occupancy Requirements

- For jurisdictions not issuing a building permit (or its equivalent) prior to construction, and a Certificate of Occupancy (or its equivalent) upon completion of construction, a condominium unit that is 1 year old or less must have a final inspection performed by an individual who has the necessary skills and experience inspecting new construction projects.

Temporary/Conditional Certificate of Occupancy Requirements

- FHA will accept a temporary / conditional Certificate of Occupancy for proposed, under construction or gut-rehabilitation conversions under the following circumstances:
 - All common areas and amenities for the project must be completed.
 - The temporary/conditional Certificate of Occupancy that was issued clearly indicates that the unit is habitable and eligible for immediate occupancy.
 - The jurisdiction that is issuing the temporary/conditional Certificate of Occupancy has in place a standard protocol whereby permanent certificates are issued and maintained.
- Escrow provisions for weather-related delays (common elements, amenities or building structure) will be permitted.

FHA/Municipal/Final Inspection - Required Forms Table

Required Document	Project or Loan Level Submission
Builder's Certification of Plans, Specifications and Site, form HUD-92541	Project and Loan Level <ul style="list-style-type: none"> Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Builder's Warranty, form HUD-92544	Loan Level <ul style="list-style-type: none"> Required document in case binder submitted for insurance endorsement.
Building Permit (or its equivalency)	Project and Loan Level <ul style="list-style-type: none"> Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Final Certificate of Occupancy (or its equivalency)	Project and Loan Level <ul style="list-style-type: none"> Submitted in the project approval submission package and the case binder submitted for insurance endorsement.
Final Inspection (if applicable) Performed by an individual who has the necessary skills and experience inspecting new construction projects	Project and Loan Level <ul style="list-style-type: none"> Submitted in the project approval submission package and the case binder submitted for insurance endorsement.

Record Retention

- DELRAP Lenders are required to retain all legal documents, contracts, conveyances, plats, plans, insurance coverage, presale and owner occupancy conditions and other associated documentation about their review and approval or denial of the project submission.

Required supporting documents must be retained for 3 years after the date of the last action taken by that lender for initial project approval, e.g. approvals or denials, annexations or recertifications

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