CMG's 203H Disaster Relief FHA Guideline Addendum

203(h) for Disaster Victims – Definition & Purpose

Section 203(h) of the National Housing Act authorizes FHA to insure Mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.

It allows FHA to insure Mortgages made by qualified Mortgagees to victims of a Presidentially-Declared Major Disaster Area (PDMDA) who have lost their housing, or whose housing was damaged and are in the process of rebuilding or buying another house.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) Mortgages provided below, this specific guidance controls.

Underwriting flexibilities are available as noted in this addendum in regards to credit history. Additional documentation requirements must be met.

Product Codes / Pricing

- Utilize standard CMG product codes for 203(b) transactions.
- Also, refer to FHA Connection below in the "Underwriting" section for specific FHA Connection guidance.
- Override may need to be requested from lock desk for LTVs exceeding FHA's standard 96.5%.

Minimum Required Investment/Maximum Loan-to-Value

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100 percent of the Adjusted Value. Override may need to be requested from lock desk for LTVs exceeding FHA's standard 96.5%.

For purchase transactions, the Adjusted Value is the lesser of:

- purchase price less any inducements to purchase; or
- the Property Value.

Click Here for Quicklink back to Table of Contents

Borrower Eligibility

Application Deadline

- The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided.

Principal Residence

- The mortgaged Property must be the Borrower's Principal Residence.

Credit Score & TOTAL Scorecard

- Standard CMG minimum credit scores apply. All loans must be run through TOTAL Scorecard. Refers and manual downgrades permitted. Any loan requiring consideration for extenuating circumstances must be approved by Corporate Credit.

Property Eligibility

- 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 subject property must be a Single Family Property or a unit in an FHA-approved Condominium Project.
- Also, refer to "Ineligible Property / Transaction Types"

Underwriting & 203(h) Flexibilities

The Mortgagee should be as flexible as prudent decision making permits. The Mortgagee is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, the Mortgagee may use alternative documentation as outlined below. Where specific requirements are not provided below, the Mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a Mortgage.

Credit

- For Borrowers with derogatory credit, the Mortgagee may consider the Borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster. See below for specific requirements in regards to Housing Payment History.

Housing Payment History

- Any housing late payments on a property that was destroyed or damaged in the disaster where the late payments were a result of the disaster may be disregarded. However, CMG requires 0x24 housing payment history prior to the impact of the disaster.

Income

- If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income. The Mortgagee may also include short-term employment obtained following the disaster in the calculation of Effective Income.

Liabilities

- When a Borrower is purchasing a new house, the Mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities. To exclude the Mortgage Payments from the liabilities, the Mortgagee must:
  - obtain information that the Borrower is working with the servicing Mortgagee to appropriately address their mortgage obligation; and
  - apply any property insurance proceeds to the Mortgage of the damaged house.

Assets

- If traditional asset documentation is not available, the Mortgagee may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the Mortgage.

FHA Connection

- FHA Connection will need to reflect 203(h) program eligibility when combining 203(b) with 203(h).
- How the 203(h) program identified in FHA Connection:
  - Section 203(h) of the National Housing Act – Mortgage Insurance for Disaster Victims utilizes a special Program ID in the FHA Connection Case Number assignment screen to identify these mortgages. The ADP code for Direct Endorsement Lenders on a 203(h) mortgage should be identified as a 703 ADP code. There is a Program ID in the FHA Connection Case Number Assignment Screen drop down option which is required to be listed as "(02)- Disaster Housing" in order for the 203(h) mortgages to be properly identified in the FHA Connection system.
  - FHA Connection Guide https://entp.hud.gov/idapp/html/mrtg-pkg.cfm

Additional Documentation Requirements

- The Mortgagee must 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. Documentation attesting to the damage of the previous house must accompany the mortgage application. If purchasing a new house, the house need not be located in the area where the previous house was located.

Ineligible Property / Transaction Types

- 2-4 unit properties
- 203(k) loans
- Manufactured Homes
- Any property not meeting CMG standards as outlined in CMG's Standard FHA Guidelines

Recent Updates / 90 Day Lookback

- 1/26/2018 Added guidance on how the 203(h) is identified in FHA Connection
- 10/23/2017 Updated property eligibility (renovation loans not eligible)
- Release date: September 29, 2017.