



FHA Purchase/Refi Non Streamline

Product Description

Programs

- Fixed rate and adjustable programs provide for a fixed interest rate and level payments for the life of the loan or an adjustable rate according to FHA current guidelines. The program is fully amortizing mortgage insured by the Federal Housing Administration. All loans must be in compliance with published FHA guidelines.
- http://portal.hud.gov/portal/page?_pageid=73,1&dad=portal&schema=PORTAL
- Refer to the 4155 for all FHA Guidelines not covered in this manual

Loan Purpose

- Purchase
- Rate/Term refinance
- Cash-out refinance
- Primary residence (only)
- HUD \$100 Down Program
 - Guides coming shortly

Loan Types

- Eligible:
 - 203(b) :
 - 1-4 unit property
 - PUD
 - 203(b), 234 (c) :
 - Condominium (prior approval by FHA Field Office is required)
- Ineligible:
 - Refer or caution findings through total scorecard
 - Credit score less than 640, or 660 for loan amounts > \$417000
 - Graduated payment mortgages
 - Growing equity Mortgages
 - Loan to non-profit organization
 - Loans with private water purification systems requiring an escrow for maintenance
 - Any program which impairs the lenders right to complete collection or foreclosure proceedings
 - Texas Section 50(a)(6) Program
 - Construction to permanent loans with modifications
 - Non-occupying borrowers on multi-unit dwellings
 - Deed restricted properties
 - Non-Traditional Credit (including, among other things, no traditional or inadequate traditional credit report information) as defined in this section.
 - "Tenants in Common with a Tenancy in common agreement"

- Transactions in which the realtor and the originator are the same individual
- Short payoff
- No more than 5 loans that are currently with the Investor or having an aggregate loan amount > \$1,000,000.:
 - Non closed loans
 - Loan that are closed and currently serviced by the Investor
 - Loans that were closed with the Investor but the servicing rights have been sold to another lender within the most recent 24 months

Property Eligibility

- Eligible:
 - 1 Unit detached and attached – PUD, FHA approved Condo
 - Condos – see Condo Requirements in this guideline
 - 2-4 Unit
- Ineligible:
 - Manufactured Housing
 - Properties that do not meet HUDs Minimum Property Standards
 - Not residential in nature and use (i.e.: farms, orchards, commercial properties, etc)
 - Properties with Deed restrictions (a.k.a. Resale restrictions)
 - 2-4 unit c/o
 - Properties located in Wrightwood, CA
 - If at least 90% of the units within the entire project are not sold and the Homeowner’s Association has not been in control at least 12 months, condos in the following states are ineligible, regardless of the units sold and/or HOA status:
 - AZ, CA, FL, NV
 - Properties having Chinese drywall or properties previously having Chinese drywall, regardless of any drywall removal and/or efforts to cure the damage.
 - Properties located in a “cancer cluster” or other health hazard area unless the local health authority provides written certification that the subject property is not affected by the health hazard and the borrower provides a written certification acknowledging the health hazard and its resolution.

Loan Amount Min/Max

- Minimum loan amount is \$20,000
- Max loan amounts vary by location:
 - <https://entp.hud.gov/idapp/html/hicostlook.cfm>.
 - Limits effective with Note dates 10/1/11 – 12/31/11 (Refer to ML 11-29)
 - Old Loan limits are good from 11/18/2011 through 12/31/2011 (based on case assignment date)

- 3-4 unit purchase or R/T cannot lend more than \$650,000 regardless of the applicable FHA county loan limits.

LTV/CLTV/HCLTV

- Max mortgage may not exceed the amounts defined on HUD's website
 - Condo's in the state of Florida: max is restricted to 70%/70%/70% with a min 740 Fico or 60%/60%/60% with a Fico less than 740 prior to the inclusion of UFMIP
- Purchases
 - Max LTV is 96.5%
 - unless non occupant co-borrower secured by 2 to 4 unit properties, then max LTV is 75%
 - Min cash investment is 3.5% of the value (sales price or appraised value, whichever is less) without closing cost
 - Max CLTV:
 - Government Second Mortgage – 100% of acquisition cost (lesser of purchase price or appraised value + closing costs, pre-paid expenses, repairs and reasonable discount points) – May be used to meet the borrower's down payment requirement
 - HUD-approved non-profit agency that is considered an instrumentality of government - 100% of acquisition cost (lesser of purchase price or appraised value + closing costs, pre-paid expenses, repairs and reasonable discount points) – May be used to meet the borrower's down payment requirement
 - A HUD-approved non-profit agency that is not considered an instrumentality of government may provide secondary financing for closing cost, pre-paid expense and discount point assistance only. The borrower must make the required 3.5% down payment from a documented and acceptable source, and the combined amount of the first and second liens must not exceed the FHA's statutory loan limit for the county in which the property is located
 - Other organizations and private individuals may provide secondary financing for closing cost, pre-paid and discount point assistance only – The combination of the first and second mortgages may not exceed the applicable LTV ratio (96.5% for purchases)
 - Second Mortgages from Family Members – 100% of the lesser of the purchase price or appraised value + closing costs, pre-paid expenses and discount points – May be used to meet the borrower's down payment requirement
- Rate and Term
 - Max Mortgage is the lower of the loan to value or the existing debt calculation described below, and never exceed the statutory limit except by the amount of any upfront MIP (UFMIP)
 - LTV calculation
 - Max LTV 97.75%
 - Multiply appraised value of the property by 97.75%.
 - Max LTV 85% if the borrower re-occupied a previous investment property within 12 months of the loan application.
 - CLTV :
 - Max 97.75%

- Cash-Out Refinance
 - Max LTV 85% and subject to the following conditions
 - Mortgage calculation is based on the length of the ownership:
 - Owned for more than 12 months prior to application date: LTV can be based on the appraised value
 - Owned less than 12 months prior to application date: LTV is based on the lower of the appraised value or sales price when property was acquired. Does not apply if property was inherited and is or will become the heir's principal residence
 - Borrower's who are delinquent, in arrears, or who have any mortgage delinquencies within the most recent 12 months period are not eligible
 - Acceptable payment history must be documented and accepted if:
 - Mortgage is current, an
 - All payments on the mortgage have been made within the month due for the previous 12 months
 - Less than 12 months: If the subject property has been owned less than 12 months preceding the date of the loan application as the borrower's primary residence, the mortgage amount is limited to the lesser of either 85% of the appraiser's estimate of value or 85% of the sales price of the property when it was acquired. However, a sales price need not be considered if the property was acquired as the result of inheritance and is or will become the heir's primary residence.
 - Subordinate financing
 - CLTV does not exceed 85%
 - New subordinate financing
 - CLTV does not exceed 85%
 - Maximum cash-in-hand limited to \$200,000

ARM Program

- Not permitted on Loan Terms less than 30 years
- 3/1
- 5/1
- Interest Rate Adjustment Caps
 - Initial: 1% up/down; Periodic: 1% up/down; Lifetime: 5% up
- Change Dates:
 - 3/1 ARM:
 - Initial interest rate change date will occur within 36 months to 42 months, depending on disbursement date. See Table below. Interest rate will adjust every 12 months thereafter.
 - 5/1 ARM:



- Initial interest rate change date will occur within 60 to 66 months, depending on disbursement date. See table below. Interest rate will adjust every 12 months thereafter.

Disbursement Date	Initial Change Date
January 16 th – April 15 th	July 1 st
April 16 th – July 15 th	October 1 st
July 16 th – October 15 th	January 1 st
October 16 th – January 15 th	April 1 st

Qualifying

- Qualifying Rate
 - Fixed: Note Rate
 - 3/1, 5/1 ARM: Note Rate
- Qualifying Ratios
 - Fixed/ARM 31%/43% or as allowed with DU (without gift/community 2nd/loans from family)
 - With gift/community 2nd/loans from family:
 - Credit score 640-679; Total Scorecard Approve; Max DTI 35%/48%
 - Credit score ≥ 680; Total Scorecard Approve; Max DTI 55%/55%
 - Credit score ≥ 680 ; Total Scorecard Refer; Max DTI 35%/45%
 - For loans that receive Total Scorecard Refer and have a credit score of 640 or <, max DTI is 35%/43%

Closing Cost

- For rate and term, the number of months to recapture the total borrower-paid closing costs from section 800, 1100 and 1200 of the Good Faith estimate and the HUD-I Settlement Statement may not exceed 48 months – To calculate the number of months to recapture the closing costs and view a list of transactions exempt from the net tangible benefit requirement, use FHA Net Tangible Benefit Worksheet.
- Principal reductions are required when the borrower is receiving more than \$500 cash at closing on a rate and term or streamline refinance loan. The principal reduction must include all cash back and not just the portion of cash back that exceeds \$500. For example, if the HUD-I Settlement Statement indicates the borrower is receiving \$626 cash back, a principal reduction in the amount of \$626 is required. A principal reduction in the amount of \$126 is insufficient

Non Occupied Borrowers

- Maximum LTV is 75% or less when a parent is selling a residence to a child and is also a co-borrower
- Maximum financing is allowed for loans having non-occupant co-borrowers related by blood, marriage or law or for unrelated individuals that can document evidence of a long-term family-type relationship provided the non-occupant co-borrower is not the seller and the property is a single-family residence

- Maximum LTV is 75% when property is 2 to 4-units and there is one or more non-occupant co-borrower(s)
- Not allowed for cash-out refinances, unless the non-occupant co-borrower(s) are on the loan being refinanced

Net Tangible Benefit

- Rate and Term:
 - For the following transactions, the new principal and interest payment plus the new annual MIP must be at least 4% less than the current principal and interest plus the current mortgage insurance, if applicable:
 - Existing fixed rate to new fixed rate
 - Existing fixed rate to new hybrid ARM
 - Existing one-year ARM to new one-year ARM
 - Existing hybrid ARM currently in its fixed rate period to new fixed rate
 - Existing hybrid ARM currently in its initial fixed rate period to new hybrid ARM
 - Existing hybrid ARM currently in its adjustable period to new one-year ARM
 - Existing fixed rate to new one-year ARM
 - The number of months required to recapture the borrower-paid closing costs shown in sections 800, 1100, 1200 of the GFE and HUD-1 settlement statement may not exceed 48 months
 - The following transactions are exempt from the rate and term net tangible benefit requirements:
 - The new Loan has a shorter amortization period than the loan being refinanced (For example, the loan being refinanced is a 30 year fixed rate mortgage, and the new rate and term refinance is a 15 year fixed rate mortgage)
 - The loan being refinanced is a hybrid ARM or one-year ARM, and the new loan is a fixed rate mortgage
 - The loan being refinanced is an interest only loan
 - The rate and term refinance is the result of a court-ordered divorce buyout – A copy of the divorce decree is required
 - The loan being refinanced is a balloon mortgage, and the new loan is a fixed rate mortgage
 - If the rate and term refinance consolidates a first mortgage and purchase money second or seasoned second mortgage, exemption from net tangible benefit requirement is reviewed on a case-by-case basis and will not be granted if the payment is increasing and the note on the second is not due in the near future
 - The FHA Refinance Net Tangible Benefit Worksheet is required
 - State required Net Tangible Benefit Forms:
 - Arkansas
 - Colorado (Community Banks are exempt from the state form requirement)
 - Illinois
 - Maine
 - Maryland
 - Massachusetts
 - Nevada
 - New Mexico
 - North Carolina

- Rhode Island
- South Carolina
- Virginia
- Maryland
- Massachusetts
- Rhode Island

Manual Underwrite

- All collections, chargeoffs, judgments and public records, regardless of age must be explained
- All inquiries in the most recent 90 days must be explained
- For ratio requirements, refer to the *Ratio* section of this document
- Ratios that exceed 31/43 require documented compensating factors

Manual Downgrades

- Loans that are manually downgraded from a TOTAL Scorecard *Approve* or *Accept* response to a “refer” response are subject to FHA’s standard documentation requirements for manual underwrites and are not eligible for documentation relief indicated in the AUS findings. Additionally, the investor’s manual underwriting ratio requirements apply.
- HUD requires the underwriter to manually downgrade a TOTAL Scorecard *Approve* or *Accept* response to a “refer” response and perform a complete manual underwrite based on standard FHA guidelines if any of the following credit characteristics exist:
 - o Additional derogatory credit is received but the credit reference was not included on the credit report evaluated by TOTAL Scorecard
- Disputed accounts or disputed public records are indicated on the credit report – If the disputed accounts meet any one of the following requirements, FHA does not require a manual downgrade:
 - o The disputed account has a zero balance **or**
 - o The credit report indicates the disputed account is “paid in full” or “resolved” **or**
 - o The disputed account is less than \$500 **and** more than 24 months old
- Suspended and debarred Individuals may not be approved, even through manual underwriting, if any party (borrower, seller, loan officer, listing or selling agent, appraiser) is included on the LDP or GSA list
- Borrowers have delinquent federal debt and do not receive a clear CAIVR number

Mortgage Insurance Premium (MIP)

CASE NUMBERS ASSIGNED APRIL 18,2011 – APRIL 8,2012- ALL LOAN PURPOSES

Loan Terms >15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
All Loan Amounts	≤ 95%	1.00%	1.10%*
All Loan Amounts	> 95%	1.00%	1.15%*



Loan Terms <15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
All Loan Amounts	>78% - 90%	1.00%	.25%**
All Loan Amounts	> 90%	1.00%	.50%**

*Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, provided the borrower has paid the premium at least five years

**Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, even if the borrower has been paying the premium less than five years

CASE NUMBERS ASSIGNED APRIL 9, 2012 – JUNE 10, 2012 – ALL LOAN PURPOSES

Loan Terms >15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
All Loan Amounts	≤ 95%	1.75%	1.20%*
All Loan Amounts	> 95%	1.75%	1.25%*

Loan Terms <15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
All Loan Amounts	>78% - 90%	1.75%	.35%**
All Loan Amounts	> 90%	1.75%	.60%**

*Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, provided the borrower has paid the premium at least five years

**Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, even if the borrower has been paying the premium less than five years

CASE NUMBERS ASSIGNED ON OR AFTER JUNE 11, 2012 – EXCLUDING STREAMLINES OF LOANS ENDORSED PRIOR TO JUNE 1, 2009

Loan Term > 15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
≤ \$625,500	≤ 95%	1.75%	1.20%
≤ \$625,500	> 95%	1.75%	1.25%

> \$625,500	≤ 95%	1.75%	1.45%
> \$625,500	> 95%	1.75%	1.50%
Loan Term < 15 Years			
BASE LOAN AMOUNT	LTV	UP-FRONT MIP	ANNUAL (MONTHLY) MIP
≤ \$625,500	≤ 95%	1.75%	.35%
≤ \$625,500	> 95%	1.75%	.60%
> \$625,500	≤ 95%	1.75%	.60%
> \$625,500	> 95%	1.75%	.85%

*Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, provided the borrower has paid the premium at least five years

**Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, even if the borrower has been paying the premium less than five years

CASE NUMBERS ASSIGNED ON OR AFTER JUNE 11, 2012 – STREAMLINE REFINANCES OF LOANS ENDORSED PRIOR TO JUNE 1, 2009 ONLY

Loan Term > 15 Years		
LTV	Up-Front MIP	Annual (Monthly) MIP
All LTVs	.01%	.55%
Loan Term ≤ 15 Years		
LTV	Up-Front MIP	Annual (Monthly) MIP
>78%	.01%	.55%

*Annual mortgage insurance is not required for LTVs ≤ 78%

**Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, provided the borrower has paid the premium at least five years

***Cancellation of the annual (monthly) premium will occur when the LTV reaches 78% of the original appraised value, even if the borrower has been paying the premium less than five years

Doc Expiration

- Interest credit allowed – Loan must close by the 7th calendar day of the months preceding the first payment date
- Credit reports must be dated within 60 days of underwriting and must be dated within 120 days of the note
- Appraisal must be ordered after case received date unless:
 - Appraisal was originally ordered for a conventional loan that subsequently converted to an FHA loan
 - Documentation of prior non-FHA loan type required
 - Valid for period of 120 days
- Income: paystub: Most recent 30 days
- Assets: All verification of funds must be dated within 45 days of the loan application and within 90 days of the note for existing construction and 120 for new construction
- Case numbers that are six months or older need to be canceled. Exceptions for loans having valid appraisals will be reviewed on case by case basis but in no event may the case number appear to have been ordered to circumvent new FHA requirements.
- Title commitment must be no older than 60 days as of initial underwrite and within 120 days of the note.

Credit

- If credit report indicates a potential OFAC match, the credit report must be emailed to the investor for review. This loan cannot close without clearance.
- Maximum number of borrowers
 - No more than 4 applicants/borrowers
- A fully executed SSN Validation Form must be included in the closing package for all borrowers
- Fully executed Undisclosed Debt Acknowledgement is required for all loans having four or more inquiries in the most recent 90 days and may be used for all inquiry explanations, regardless of the number.
- For the purposes of determining the number of valid trade lines, authorized user trade lines are not considered as one of the borrower's trade lines.

Credit Score

- Credit Score
 - 3 scores (use the middle)
 - 2 scores (use the lowest)
 - 1 score (use that score)
- Credit Score Overlays
 - <\$417000 = 640 Fico
 - > \$417000 = 660 Fico
 - Requires 3 trade lines (joint borrower's: joint account can be used as one)

Eligible Borrowers

- U.S. citizens and permanent resident aliens
- Non-permanent resident aliens may qualify; refer to Handbook 4155.1 Rev-5

- Non-occupant co-borrowers:
 - Purchase transactions are limited to 75% LTV when secured by 2 to 4 unit properties.
 - Not eligible on cash-out refinance transactions

Liabilities

- All mortgage, installment, revolving, child support and alimony obligations must be included in borrower's ratios o Revolving debt may be excluded from the ratios, if the account will be paid off prior-to or at closing, provided all of the following requirements are documented in the file:
 - The borrower may not have had any late payments on revolving, installment, or mortgage debts in the most recent 24 months
 - The borrower may not have had any judgments, public records, non-housing related chargeoffs or collections, other than medical, in the most recent 24 months
 - Gifts may not be used to payoff revolving debt for qualification purposes
 - If the borrower has any of the derogatory credit described above, the revolving debt must be included in the ratios, regardless of whether the account will be paid off, paid down and/or closed prior to or at closing
- If the borrower obtains a new HELOC, or re-subordinates an existing HELOC, the monthly payment is calculated using the higher of the maximum accessible line of credit or existing balance.

Special Underwriting

- Social security number discrepancies:
 - All borrowers to have a valid SSN
 - ITIN's are not acceptable
 - Lender needs to validate each SSN number and if necessary resolve any issues or inconsistencies that may be discovered. (SSN Audit)
 - If SSN is not able to be validated, not eligible
- Delinquent Federal Debt on FHA Loan Applications
 - HUD will not process an application for mortgage insurance if an applicant has delinquent Federal debts outstanding. Documentation that gives evidence that the debt is resolved or under a satisfactory payment arrangement is required must down grade to a manual underwrite.
- Non-Purchasing Spouse in Community Property must meet all requirements
- Non Tradition Credit is ineligible

Current Mortgage

- Effective 2/14/11, the borrowers must be current on the mortgage being refinanced for the month due prior to the month in which they close the refinance and for the month in which they close.

Forclosure/Bankruptcy/Shortsale

- Cash Out transaction loan amount >\$417000, prior to the inclusion of UFMIP, the Bankruptcy and foreclosure discharge/release date must have been at least 7 years prior to the loan application date.

- Bankruptcy discharged within the past two years will not be approved without an Approve response from the FHA Total Scorecard.
- Chapter 7 Bankruptcy will not be eligible for FHA financing if the bankruptcy was discharged within the past two years, unless an Approve response is received from the Total Scorecard.
- Foreclosure/Shortsale: Previous foreclosure will not be eligible for FHA financing if the foreclosure occurred within the past three years.

Judgments

- Judgments must be satisfied prior to closing unless both of the following items are provided:
 - Fully executed repayment agreement
 - Evidence timely payments have been made (Evaluated on a case-by-case basis generally for a minimum 12-month period) – The payment must be included in the debt-to-income ratios when qualifying the borrower
- Judgments that have been paid in full but do not indicate a “satisfied” status on the credit report require evidence of satisfaction from the court. A paid-in-full letter from the creditor does not satisfy FHA’s requirements
- Judgments belonging to a non-borrowing spouse are subject to all of the above requirements when the borrowers live in or purchase a property located in a community property state
- All outstanding judgments on title must be removed prior-to-closing
 - For cash-out refinances, proceeds may be used to payoff outstanding judgments at closing – Underwriter exception approval required and exceptions are granted on a case-by-case basis. The lender is required to provide evidence of the judgment’s satisfaction from the appropriate court after the loan closes

Tax Lien

TAX LIENS

- Income tax liens may remain unpaid, provided the lien holder provides a fully-executed subordination agreement or IRS Federal tax liens “routinely take a second lien position,” so a subordination agreement is not required
- If the borrower is required to make regular payments, the payment must be included in the ratios
- If the government holding the tax lien is unwilling to subordinate the tax lien, it must be paid in full and released prior to closing

Subordinate Financing

- Rate/Term: New or existing being re-subordinated, is subject to a CLTV limit of 97.75
- Cash/Out: New or existing being re-subordinated, is subject to a CLTV limit of 85%
- Subordinate financing includes any financing that creates a lien against the subject property, even if it is a “soft”, “silent”, or “forgivable” second.
 - All community second programs must be approved by CMG Mortgage, Inc.
 - (Bond programs are not permitted)
- Borrowers who receive down payment or closing cost assistance are subject to ratio overlays for borrows who receive gifts, grants, or down payment assistance

- All non-profit agencies must be HUD-approved
 - HUD-approved non-profit agencies that are classified as government instrumentalities may provide funds for down payment, closing costs, pre-paid expenses, repairs and discount points
 - HUD-approved non-profit agencies that are not instrumentalities of government may not provide any of the borrower's minimum down payment requirement but may provide closing costs, pre-paid expenses, discount points and down payments in excess of the minimum down payment
- Seller-held seconds not permitted
- Borrower must be qualified with any required payment unless the payment is deferred at least three years
- The following entities may provide secondary financing for the borrower's entire cash investment, including down payment, closing costs, pre-paid expenses, discount points and repairs:
 - Valid City, County, State or Federal government agency
 - HUD-approved non-profit agency that is also classified as an instrumentality of government
 - Maximum CLTV is 100% of acquisition cost (lesser of purchase price or appraised value plus closing costs, pre-paid expenses, appraiser-required repairs and reasonable discount points)
- A family member may provide a second mortgage for the borrower's entire down payment requirement, closing costs, pre-paid expenses and discount points
- Borrowers who receive a loan from a family member for down payment or closing cost assistance are subject to ratio overlays for borrows who receive gifts, grants, or down payment assistance
- A HUD-approved non-profit agency that is not considered an instrumentality of government may provide secondary financing for closing cost assistance only. The borrower must make the required 3.5% down payment from a documented and acceptable source, and the combined amount of the first and second liens must not exceed the FHA statutory limit for the county in which the property is located
- Other organizations and private individuals may provide secondary financing for closing cost assistance only – The borrower must make the required 3.5% down payment from a documented and acceptable source, and the combination of the first and second mortgages may not exceed the applicable LTV ratio (96.5% for purchases) and may not exceed the statutory loan limit for the county in which the property is located
- Underwriter must examine a sample of the note and deed to verify that the allowable governmental agency, the HUD-approved non-profit, or the family member is the actual lien holder
 - Purchase transactions – Copies of the fully-executed note and mortgage are required at closing
 - Refinance transactions – Copies of the fully-executed note and mortgage are required prior-to-closing
- Subordinate financing that requires a special designated servicer for the first lien or imposes any servicing or resale restrictions on the first lien is not allowed
- Must meet all additional requirements for subordinate financing as stated in *HUD Handbook 4155.1*, 5.C.1-6

Income

Verbal Verification of Employment

- Wage Earner:
 - Documented VVOE with the employer no more than 10 business days of the note. A written VOE can be used to verify employer and/or income. Neither a paystub nor a written VOE may replace the verbal VOE.

- Self-Employed:
 - Verifications for self-employed borrowers must be within the most recent 30 days and must be obtained from a third party such as a CPA, regulatory agency or the applicable licensing bureau and verification of the business' phone listing and address via phone book, the internet or directory assistance is also required
- Verifications for active-duty military borrowers may be in the form of a military Leave and Earnings Statement (LES) dated within 30 days of closing
- Verification of employment/certification of non-employment income is required for all loans prior-to-funding and must be completed

IRS 4506 T

- A signed form is required.
- 4506 Audit required on all loans

Income Documentation

- All income calculations must be documented in the loan file (MGAW). For self employed borrower's, 1084 form is required
- Re-entering the workforce and have an employment and income history that covers less than the 2 most recent years must be with their current employer for a minimum of 6 months and must have a documented 2 year work history prior to the absence.

Rental Income

RENTAL INCOME

CONVERTING EXISTING HOMES TO RENTALS

- Single-family residences:
 - Rental income from the borrower's current primary residence is permitted, provided at least one of the following FHA requirements is met:
 - The borrower obtains new employment or a job transfer that is not within a reasonable commuting distance of the current primary residence or
 - The borrower has a 25% equity position in the current primary residence as evidenced by an acceptable appraisal or sales price dated within the most recent six months. An exterior-only appraisal may be used to determine the borrower's equity position.
 - If one or both of the requirements above are met, all of the following documentation is required:
 - Fully executed lease agreement (A 25% vacancy factor will be applied to the monthly rent stated on the lease agreement) **and**
 - Evidence of the borrower's receipt of the security deposit **and**
 - Evidence of the borrower's deposit of the security deposit to his or her bank account
- 2 to 4-unit properties:
 - Rental income from the unit the borrower is vacating is not permitted
 - Rental income may be used from the currently rented units only. Rental income is calculated using Schedule E of IRS Form 1040 only, regardless of property acquisition date. Therefore, if the

borrower acquired the property within the current calendar year, the ratios are calculated using the full PITI for the property the borrower is vacating

2-UNIT SUBJECT PROPERTY – PURCHASE

- Rental income from the second unit may be used, provided all of the following documentation is provided:
 - Fully executed lease agreement – Borrower may provide a copy of the seller’s fully executed existing lease agreement or a fully executed new lease agreement. If neither an existing or new lease agreement exists, rental income is not permitted
 - A 25% vacancy factor will be applied to the lesser of the appraiser’s estimate of rental income for the unit or the actual rental income stated on the lease agreement
 - Maximum financing of 96.5% of the lesser of the purchase price or appraised value is permitted
 - All borrowers must have a minimum credit score of 640

3 TO 4-UNIT SUBJECT PROPERTY – PURCHASE

- If a non-occupant co-borrower is added to the loan, the LTV is limited to 75%
- Loan must receive a TOTAL Scorecard *Approve* or *Accept* response
- Loans that receive a TOTAL Scorecard “error” response due to the absence of credit scores are ineligible
- Borrowers who do not meet minimum traditional trade line requirement are ineligible
- Loans that receive an *Approve* or *Accept* response but none of the occupant borrowers have credit scores are ineligible
- Minimum credit score – 640
- LTV < 90%:
 - Rental income from the non-owner occupied units is permitted, subject to all of the following documentation:
 - A fully executed lease agreement and
 - A 25% vacancy factor will be applied to the lesser of the appraiser’s estimate of rent or the actual monthly rent stated on the lease agreement and
 - If the non-owner occupied units are not currently leased, rental income may not be used for qualification
- LTV 90% - 96.5%:
 - The borrower must qualify with the full PITI. Rental income from the units the borrower will not occupy may not be used for qualification purposes
 - FHA requires the property to be self-sufficient – The monthly PITI divided by the net rental income after applying FHA’s vacancy factors may not exceed 100%
 - Santa Ana HOC – 15%
 - Philadelphia HOC – 15%
 - Atlanta HOC – 15%
 - Denver HOC
 - 10% - Colorado, Iowa, Minnesota, Montana, Wisconsin
 - 15% - Kansas, Louisiana, Missouri, Nebraska, New Mexico, North Dakota, South Dakota, Texas, Wyoming
 - 20% - Arkansas, Oklahoma, Utah
 - 3 Months’ reserves required

2-UNIT SUBJECT PROPERTY – RATE AND TERM REFINANCE

- Rental income from the non-owner occupied unit is permitted subject to all of the following documentation:

- Property was purchased during a previous calendar year - Rental income from the unit the borrower does not occupy is calculated using Schedule E of IRS Form 1040. Lease agreements may not be used for properties acquired in previous calendar years
- Property was purchased during the current calendar year - Rental income from the unit the borrower does not occupy is permissible, subject to all of the following documentation:
 - Fully executed lease agreement between the borrower and renter
 - A 25% vacancy factor will be applied to the lesser of the appraiser's estimate of rental income for the unit or the actual rental income stated on the lease agreement
 - If the second unit is not currently leased, no rental income is permitted
- Maximum LTV is 97.75%
- Minimum credit score – 640

3 TO 4-UNIT SUBJECT PROPERTY – RATE AND TERM REFINANCE

- The loan must receive a TOTAL Scorecard *Approve* or *Accept* response
- Borrowers who do not meet the investor's minimum traditional trade line requirement are ineligible
- Loans that receive an *Approve* or *Accept* response but none of the occupying borrowers have credit scores are ineligible
- Minimum credit score – 640
- LTV < 90%:
 - Rental income from the non-owner occupied units is permitted, subject to all of the following documentation:
 - Property acquired in current calendar year:
 - A fully executed lease agreement
 - A 25% vacancy factor will be applied to the lesser of the appraiser's estimate of rent or the actual monthly rent stated on the lease agreement
 - If the non-owner occupied units are not currently leased, rental income may not be used for qualification
 - Property acquired in previous calendar years:
 - Rental income from the units the borrower does not occupy is calculated using Schedule E of IRS Form 1040. Lease agreements may not be used to calculate rental income from properties acquired in previous calendar years
- LTV 90% - 97.75%:
 - The borrower must qualify with the full PITI. Rental income from the units the borrower does not occupy may not be used, regardless of acquisition date
- FHA requires the property to be self-sufficient – The monthly PITI divided by the net rental income after applying FHA's vacancy factors may not exceed 100%
 - Santa Ana HOC – 15%
 - Philadelphia HOC – 15%
 - Atlanta HOC – 15%
 - Denver HOC
 - 10% - Colorado, Iowa, Minnesota, Montana, Wisconsin
 - 15% - Kansas, Louisiana, Missouri, Nebraska, New Mexico, North Dakota, South Dakota, Texas, Wyoming
 - 20% - Arkansas, Oklahoma, Utah
- Three months' reserves required

2 TO 4-UNIT SUBJECT PROPERTY – CASH-OUT REFINANCE

- 2 to 4-Unit properties are ineligible for cash-out

ADDITIONAL INVESTMENT PROPERTIES OWNED BY THE BORROWER – NOT THE SUBJECT PROPERTY

- 1 to 2-unit properties acquired during the current calendar year – Rental income must be documented with all of the following items:
 - Fully executed lease agreement(s) between the borrower and the renter(s)
 - A 25% vacancy factor will be applied to the lesser of the appraiser’s estimate of rental income for the unit(s) or the actual rental income stated on the lease agreement(s)
 - If the units are not currently leased, rental income may not be used for qualification
 - Additional conditions may apply
- 1 to 4-unit properties acquired in previous calendar years – Rental income is calculated using Schedule E of IRS Form 1040
- 3 to 4-unit properties acquired during the current calendar year - Lease agreements may not be used to calculate rental income, and the borrower must qualify with the full PITI

Assets

Reserves

- All earnest money deposits must be verified prior to closing
- When funds are used to close on the subject loan, proof of liquidation is required, regardless of Total Scorecard response
- 1-2 Units: None required
- 3-4 Units: 3 months PITI. Subject property must be “self sufficient”. Gross rents less the vacancy factor for all units, including the o/o unit, must be equal to or greater than the total payment for the subject property

Down Payment Fund

- May not be provided by:
 - Seller or any other person or entity that financially benefits from the transaction; or
 - Third party or entity that is reimbursed, directly or in-directly, by the seller or any other person or entity that financially benefits from the transaction
- Business Assets:
 - The borrower must be 100% owner of the business. 2 months statements must be submitted regardless of AUS response. The lowest ending balance of either statement provided will be allowed for funds to close.

Gift Funds

- Must meet all requirements per the 4155.1, Chapter 5, Section B
- Determine that the gift funds
 - Were not provided by an unacceptable source
 - Were the donors own funds; and
 - Were not derived from a party to the sale transaction such as a seller, etc.

- Need copy of the donors most recent bank statement, or
- A VOD mailed directly from the lender (the donor or borrower may not hand carry the document to the depository)

Seller Contributions

- Seller contributions allowed up to 6% of the sales price - If seller contributions exceed the actual amount of closing costs, pre-paid expenses and discount points
- UFMIP, when paid by the seller, is included in the 6% limitation
- Seller must pay all or no UFMIP – Partial financing of UFMIP is not allowed
- Any seller contribution exceeding 6% of the sales price results in a dollar for dollar reduction to the sales price before calculating the maximum loan amount
- Items such as the owner’s title policy that are customarily paid by the seller are not included in the 6% seller contribution limitation
 - Items customarily paid by the seller vary by state
 - Documentation indicating a fee is typically seller-paid may be required

Property

Appraisal

- Search Flastar eligible appraiser list (if the name appears and states “approved” then the appraisal is eligible)
- Must meet requirements as outlined in FHA Handbooks and Mortgagee Letters
 - Must include the market conditions addendum (1004 MC). Refer to Mortgagee Letter 2009-09 for complete details
 - Valid for 120 days. Form 1004D may be used to provide a recertification of value and/r completion of compliance repairs and completion inspections for existing and new construction properties.
 - Criteria regarding the transfer of an FHA appraisal applies. Refer to ML 2009-29
 - Criteria regarding appraiser independence as well as new requirements regarding who is eligible to request an FHA appraisal applies. Refer to ML 2009-28..
- Property inspection waivers are not permitted.
- Repairs and Escrow Holdback are not permitted
- Photographs are required for all of the following rooms:
 - Living rooms
 - Kitchens
 - Bathrooms
- Appraisal must be ordered through the investor’s approved appraisal management company if any of the following is true:
 - Property is being sold by an LLC or other non-lending entity that is not the builder/developer
 - Property has 2 to 4-units
 - Property is a condominium located in Florida
 - Borrower is an employee in the sales or production function of any mortgage originating branch or company

- All utilities must be turned on and the appraiser must note that they are fully operable at the time of inspection

Seasoning

- Cash Out refinance:
 - Property must be off the market at least 6 months prior to application
- Rate and Term refinance
 - LTV < 70% - Property must be off the market at least one day prior to application- evaluated on case-by-case basis
 - LTV > 70% - Property must be off the market at least three months prior to application

Property Flipping

- Less than 6 months before the purchase agreement was executed, the following rules apply:
 - Resale within 90 days or less (not eligible)
 - Resale occurs between 91 days and 180 days: following seller acquisition and resale price is 100% or more above the seller acquisition cost (order 2nd appraisal)
- 12 months since seller acquisition
 - If property was purchased within the previous 12 months and the new sales price increases by 5% or more, CMG will require documentation to support the increased value including any rehabilitation or remodeling. 2nd appraisal may be required at the u/w discretion.

Termite Inspections

- For existing properties greater than one year old, termite inspection and/or treatment is required only if the appraiser indicates any of the following:
 - The appraiser indicates there may be active infestation
 - Termite inspections are mandated by state or local jurisdiction
 - Termite inspections are customary in the area
 - May also be required at lender's discretion

Condominium Requirements

- Will not participate in the DELRAP review process and will not approved loans that are under the DELRAP review process. Project must be added to the FHA condominiums List prior to transaction
- Projects listed as "denied" are not eligible
- Condos in the following states are ineligible unless at least 90% of the units within the entire project are sold and the homeowners have been in control of the Homeowner's Association at least 12 months:
 - Arizona – Attached new construction condos and PUDs not permitted
 - California
 - Florida
 - Purchases of new construction condos are permitted, provided the condominium was approved by FHA via the HRAP method and the borrower does not receive a gift, grant, down payment assistance and/or loan from family member for funds to close and the

investor performs an on-site inspection – Contact your account executive for inspection information

- Refinances of new construction condominiums are ineligible
- Attached new construction PUDs that do not meet investor’s 50% presale requirement not permitted
- Nevada

Temporary Buydowns

Not eligible

Purchase Contract

- Electronic Signature:
- Neither buyers, sellers, real estate agents nor builders are permitted to sign any origination or closing document with electronic signatures
- FHA permits electronic signatures for “third party documents that are originated and signed outside the mortgagees control, such as a sales contract”
- Electronic signatures for appraisers are allowed
- Electronic signatures for DE underwriters are not permitted on any FHA documents

Hazard insurance

1-4 UNIT SINGLE FAMILY

- All files **must have** an original homeowner’s insurance policy and contain all of the following:
 - Insured’s name and property address, which must match, mortgage records (mortgage, note and title policy) exactly.
 - Policy inception and expiration dates must be clearly indicated. Annual premium must be indicated along with paid receipt.
 - Insurance carrier and agent must be indicated.
 - Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement.
- Amount of coverage:
 - Coverage amount must be equal the lesser of the following:
 - 100% of the insurable value of the improvements, as established by the property insurer; or
 - The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If above requirements are not met, then coverage that does provide the minimum required amount must be obtained.

PLANNED UNIT DEVELOPMENTS

- Requirements for 1-4 family and multifamily properties apply to similar residential properties within a planned unit development (PUD). The unit owners’ own Homeowner’s Policy (if not covered by the Master Policy) must follow the same criteria as 1-4 family properties. Borrowers must show evidence of hazard insurance coverage for all properties with attached units that cover fixtures, equipment, and other personal property inside individual units if they will be financed by the mortgage. Borrowers must show evidence of a “walls-in” coverage policy unless they can document that the master policy provides the

same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that may have made to the unit.

- If the individual units are covered by insurance purchased by their respective owners, the PUD homeowner's association must maintain "all risk" coverage for common areas and property for 100 percent of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:
 - Agreed Amount
 - Demolition Cost
 - Increased Cost of Construction
 - Boiler and Machinery
- **COVERAGE MINIMUM**
 - The insurer's minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or \$2 million whichever is less.
- **BLANKET POLICY**
 - CMG will also accept blanket insurance covering all units in the PUD as well as insurable common areas and property, if called for in the PUD's constituent documents. Such coverage must meet the requirements applicable to each PUD unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage provided that the deductible for losses to an individual does not exceed the lower of \$1,000 or 1 percent of the unit's insurable value. Funds for any deductibles must be included in the association's reserves and be so designated. The PUD's insurance policy must name the insured in substantially the same language indicated below:

"Association of Owners of the ... Planned Unit Development for the use and benefit of the individual owners (designate by name, if required by law or the constituent document.)"

CONDOMINIUMS

- The condominium owner's association must maintain blanket "all risk" coverage for the following:
 - General and limited common elements within the condominium
 - Fixtures, machinery, equipment, and supplies maintained for the service of the condominium
 - Fixtures, improvements, alterations, and equipment within the individual units
- Coverage must be for 100 percent of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis.
- The additional coverage required of PUD homeowners' associations are also required of condominium owners' associations where applicable and available.
- Required verbiage:
 - The insurance policy of the condominium owners' association must name the insured using substantially the same language as indicated below:
 - Association of Owners of the ...Condominium for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."
- HO-6 policy required to cover 20% of the appraised value if the master policy does not cover "walls In"