WesLend Choice FHA Standard – 4000.1

SECTION 1	MATRIX:

WesLend Choice FHA Standard:

Transaction	FICO	Number of Units	Maximum LTV	Maximum CLTV
Primary Residence – Owner Occupied				
Purchase	580	1-4	96.50	96.50[1]
No Cash Out / Simple Refinance	580	1-4	97.75[4]	97.75[4]
Cash Out	580	1-4	85	85
Streamline w/out appraisal	580	1-4	100[2,3]	125[2]

Footnotes:

1. In some cases (i.e. provided by a family member, government agency, etc.) subordinate financing may be as high as 100% CLTV.
2. LTVs/CLTVs for Streamline refinances W/O appraisals are based on the original loan amount.
3. Non-Credit Qualifying Streamlines: The new base loan amount may not exceed the original base loan amount.
4. 85% LTV for No Cash Out refinances where the borrower has occupied the subject property fewer than 12 months prior to case number assignment or if owned less than 12 months, has not occupied the property for that entire period of ownership.

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SECTION 2	Products:

Program Codes

FHA Standard Conforming Programs				
30 Year Fixed	8000-99		30 Year Fixed Streamline	8037-99
25 Year Fixed	8100-99		25 Year Fixed Streamline	8137-99
20 Year Fixed	8200-99		20 Year Fixed Streamline	8237-99
15 Year Fixed	8300-99		15 Year Fixed Streamline	8337-99

FHA Standard High Balance Programs				
30 Year Fixed High Balance	8033-99		30 Year Fixed High Balance Streamline	8038-99
15 Year Fixed High Balance	8333-99		15 Year Fixed High Balance Streamline	8338-99

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SECTION 3	Highlights:

WesLend Choice FHA Highlight Table

4506 Transcripts	Transcripts are required per income documentation type included in the loan file.
Assets	Cryptocurrency, such as Bitcoin and Ethereum, may NOT be used for down payment funds or closing funds. These types of funds must be backed out of the borrower's assets.
AUS System	DU only. LP is not eligible.

Borrower Eligibility	Maximum four borrowers per transaction.
	All borrowers must have a valid Social Security number.
	The following are eligible:
	• Permanent Resident Aliens with proof of lawful residence.
	• Non-Permanent Resident Aliens who are eligible to work in the U.S. as evidenced by an Employment Authorization Document (EAD Card) issued by the USCIS.
	  ▪ The Employment authorization Document is required to substantiate work status.
	  ▪ If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, determine the likelihood or renewal based on information from the USCIS.

	The following are ineligible: • Borrowers with Diplomatic Immunity • Borrowers with Temporary Protected Status • Borrowers with Deferred Enforced Departure or Humanitarian Parole Status • Corporations • Foreign Nationals • Foreign Politically Exposed Persons • LLCs or Other Business Entities • Non-Resident Aliens • Partnerships or Other Business Entities
Building on Own Land	Not Allowed
Cash on Hand	Not Allowed
Co-borrower or Co-Signer	• Must be either a U.S. citizen or have a permanent residence in the U.S. • May not be the seller, builder, real estate agent, etc. unless the co-borrower/co-signer is a family member.
Community Property States	• Arizona • California • Idaho • Louisiana • Nevada • New Mexico • Texas • Washington • Wisconsin
Condominium	Must be in an FHA HRAP approved project
Construction to Permanent	Not Allowed
Credit Report	• A new credit report may not be pulled once the file has been submitted for underwriting. ▪ Underwriters may require a new credit report due to erroneous or disputed information that needs to be deleted at the credit bureau level. • Otherwise, a new credit report is allowed only after the existing credit report has expired.
Deed Restrictions	Age related restrictions only. All other deed restrictions are ineligible.
DAP/MCC	Not Allowed
Escrow / Impounds	Required. Waivers are not allowed.
Escrow Holdbacks / Repair Escrows	Not Allowed
E-Signatures	The following loan documents **may not** be signed using E-Signature: • Note and Riders to the Note; • Security Instruments and Riders; • Notice of Right to Cancel; and • Powers of Attorney.

Family Member Defined	Family member is defined as follows regardless of actual or perceived sexual orientation, gender identity, or legal marital status:
	• Child, parent, or grandparent;
	  ▪ A child is defined as a son, stepson, daughter, or stepdaughter;
	  ▪ A parent or grandparent includes a step-parent/grandparent or foster

	parent/grandparent; • Spouse or domestic partner; • Legally adopted son or daughter including a child who is placed with the borrower by an authorized agency for legal adoption; • Foster child; • Brother, stepbrother; • Sister, stepsister; • Uncle; • Aunt; or • Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.

Gift Funds	**Cash on hand is not an acceptable source of donor gift funds.**
	
	• Obtain a gift letter signed and dated by the donor and the borrower that includes the following:
	  ▪ The donor's name, address and telephone number;
	  ▪ The donor's relationship to the borrower;
	  ▪ The dollar amount of the gift; and
	  ▪ A statement that no repayment is required.
	• Verify and document the transfer of the gift funds from the donor to the borrower by providing the following:
	  ▪ If the gift funds have been verified in the borrower's account, obtain the **donor's bank statement showing the withdrawal** and evidence of deposit into the borrower's account.
	  ▪ If the gift funds are not verified in the borrower's account, obtain the certified check, money order, cashier's check, wire transfer or other official check, and **a bank statement showing the withdrawal from the donor's account.**
	• If the gift funds are paid directly to the settlement agent verify that:
	  ▪ The settlement agent received the funds from the donor for the amount of the gift; and
	  ▪ **A bank statement showing the withdrawal from the donor's account**.
	• **Only family members may provide equity credit as a gift on property being sold to other family members.**

Identity-of-Interest Transactions	An Identity-of-Interest transaction is a sale between parties with an existing **business relationship** or between **family members.** • **The maximum LTV percentage for Identity-of-Interest transactions on purchase transactions is limited to 85%.** • **The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of sales contract execution is restricted to 85%.** The 85% LTV restriction may be exceeded if the borrower purchases as their principal residence: • The **principal residence of another family member**; or • A property owned by a family member where the borrower **has been a tenant for at least six months immediately predating the sales c**ontract. • An employee of a builder who is not a family member purchases one of the builder's new houses or models as a principal residence; or • The current tenant purchases the property where the **tenant has rented the property for at least six months immediately predating the sales contract.**
Ineligible Programs	The following programs are not eligible: • 203(h) Disaster Victims • 203(k) Rehabilitation Program • 235 Refinance of Borrowers in Negative Equity Positions • 247 Hawaiian Homelands • 248 Indian Lands • $100 Down Program • Energy Efficient Mortgage Program (EEM) • FHA Assumption Program • Good Neighbor/Officer Next Door

	• Graduated Payment Program • Growing Equity Mortgages • Housing Authority Subsidies • HUD REO Program • Loans to Non-Profit Organizations • Loans with Private Water Purification System • Short Refinances
Ineligible Properties	The following property types are not eligible: • Assisted Living Properties • Bed and Breakfast Establishments • Boarding Houses • Commercial Properties • Condotels, Motels or Hotels • Co-ops • Fraternity or Sorority Houses • Hawaii Properties in Lava Zones 1 and 2 • Houseboats • Log or Dome Homes • Mobile Homes • Native American Indian Trust Lands • Newly Constructed Properties Located in Military Airfield Accident Prone Zone 1 • Private Clubs • Properties with Condition/Quality Ratings of C5, C6, or Q6 • Properties Contaminated by Methamphetamine Production or Use • Properties with More than One Accessory Dwelling • Properties Located within 75 Feet of an Operating/Proposed Gas or Oil Well • Properties Located within 10 Feet of a Pipeline Easement or High Pressure Gas Line • Properties Located within 300 Feet of Above/Below Ground Stationary Storage Tanks Containing more than 1000 Gallons of Explosive/Flammable Fuel (Includes Gas Stations) • Properties Located in Coastal Barrier Resources Systems (CBRS) • Properties that do not meet FHA MPR/MPS. • Timeshares • Vacation Homes • Working Farms and Ranches
Land Trusts	Not Eligible
Leasehold	Not Eligible
Loan Limits	**FHA Mortgage Limits** • https://entp.hud.gov/idapp/html/hicostlook.cfm
Manufactured Homes	Not Allowed
Manual Underwriting	Allowed – must meet the following requirements:

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios	Acceptable Compensating Factors
580 and Above	**31/43**	Compensating factors are not required.
580 and Above	**37/47**	**One** of the following: • Verified and documented cash reserves; • Minimal increase in housing payment; or • Residual income
580 and Above	**40/40**	No discretionary debt
580 and Above	**40/50**	**Two** of the following: • Verified and documented cash reserves; • Minimal increase in housing payment; or • Residual income

Marijuana Related Business/Employment	Income from Marijuana related business or employment is ineligible for qualifying purposes
Mixed Use Properties	Allowed per FHA requirements.
Non-Occupant Co-Borrower	• 75% Maximum LTV on 1-4 units unless the non-occupant co-borrower is a family member as defined by FHA • Rental income may not be used to qualify • Not allowed for qualifying purposes on cash-out refinance transactions • The non-occupant co-borrower must take title to the property and sign the Note and deed of trust/mortgage • The non-occupant co-borrower must have a principal residence in the United States or be a U.S. citizen
Non-Traditional Credit	Not Eligible
PACE (HERO) Programs	Not Eligible
Power of Attorney	Must meet FHA requirements. Powers of Attorney may not be used for the following transaction types: • Cash-Out Refinances • Identity-of-Interest Transactions • Non-Occupant Co-Borrowers • Title in Trust
Refinance Seasoning Requirements	**Cash-Out Refinances** must meet the following seasoning requirements: • The property securing the **cash-out refinance** must have been **owned and occupied by the borrower as their principal residence** for the **12 months prior to the date of the case number assignment**. ▪ For a streamline refinance or a cash-out refinance, the borrower must have made at least **six consecutive monthly payments** on the loan being refinanced beginning with the payment made on the first payment due date; and • The first payment due date of the new loan must occur **no earlier than 210 days** after the first payment due date of the loan being refinanced.
Refinance Value Requirements	For properties **acquired by the borrower within 12 months of the case number assignment date** the appraised value is the **lesser of:** • The borrower's purchase price plus any documented improvements made after the purchase; or • The appraised value. Properties acquired by the borrower **within 12 months of the case number assignment by inheritance or through a gift from a family member** may use the appraised value.
Rental Income from a Departure Residence	If rental income is being derived **from the property being vacated by the borrower, the borrower must be relocating to an area more than 100 miles from the borrower's current principal residence.** Obtain the following documentation: • A lease agreement of at least one year's duration after the loan closing date; • Evidence of the tenant's payment to the borrower of the security deposit and/or the first month's rent; and • **An appraisal evidencing market rent and that the borrower has at least <u>25% equity in the departure property.</u>**
Sales Contracts	Assigned Sales Contracts - Not Allowed
Section 8 Voucher	Not Allowed
State Restrictions	The following state restrictions apply • 2-4 units in New Jersey – Not Allowed

	• Properties in West Virginia – Not Allowed • Properties in U.S. Territories or Possessions – Not Allowed • Texas 50(a)(6) transactions - Not Allowed
Tax Returns	• Amended tax returns that increase the borrower's income – Not Allowed • When the tax return reflects monies are owed to the IRS for the most recent tax year, evidence of payment to the IRS is required.
Temporary Buy Downs	Not Allowed
Three and Four Unit Properties	• Three months' PITIA reserves required from borrower's own funds. Reserves may not be from a gift. • Three and four unit properties must be self-sufficient. ▪ Net self-sufficient rental income is the rental income produced by the subject property over and above the PITIA. ▪ Net self-sufficiency rental income is calculated by using the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market value. **The PITIA divided by the monthly net self-sufficiency rental income may not exceed 100%.**
Unpermitted Additions	Acceptable Unpermitted Property Additions: • The addition complies with all FHA guidelines • The addition does not result in a change in the number of units • The appraiser has no reason to believe the addition would not pass inspection for a permit.
Verification of Employment/Verification of Deposit/Verification of Mortgage/Rent	• The use of a Verification of Employment (VOE) and/or a Verification of Deposit (VOD) only is not allowed. ▪ At a minimum paystubs and bank statements are required. • When the borrower's current mortgagee or landlord is a private party, the use of a Verification of Mortgage (VOM) or Verification of Rent (VOR) only is not allowed. ▪ Copies of the borrower's most recent, consecutive 12 months cancelled checks will be required.

FHA Credit Philosophy

The Lenox/WesLend philosophy is to offer the FHA Program with minimal overlays to our clients. All loans are evaluated in accordance with the following principals:

- All loans must be submitted to TOTAL Scorecard except for streamline refinance transactions.
- Each loan is evaluated in accordance with:
  - FHA policies as defined in the HUD Handbook 4000.1 and all other applicable HUD Handbooks and Mortgagee Letters;
  - Desktop Underwriter (DU) or Loan Prospector (LP) recommendations; and
  - Policies as outlined within this Program Guide.
- Each loan applicant is underwritten individually and all credit standards are applied consistently to each borrower.
- All factors are considered when evaluating a loan file. The underwriting decision is not based on any single item or factor.

Allowable Mortgage Parameters

Maximum Mortgage Amounts

Loan Amounts and Seasoning Requirements

- The loan amount cannot exceed the Nationwide Mortgage Limits, the Nationwide Mortgage Limit for the area or the maximum loan-to-value (LTV) ratio. The LTV ratios vary depending on:
  - The type of borrower;
  - The type of transaction (purchase or refinance);
  - The program type; and
  - The stage of construction.
- Under most programs the maximum mortgage is the **lesser of** the Nationwide Mortgage Limit for the area or a percentage of the adjusted value.
- For purchase transactions, the adjusted value is the **lesser of:**
  - The purchase price **less any inducements to purchase**; or
  - The appraised value.
- For refinance transactions:
  - For properties **acquired by the borrower within 12 months of the case number assignment date** the adjusted value is the **lesser of:**
    - The borrower's purchase price plus any documented improvements made after the purchase; or
    - The appraised value.
  - Properties acquired by the borrower **within 12 months of the case number assignment by inheritance or through a gift from a family member** may use the appraised value as the adjusted value.
  - For properties **acquired by the borrower greater than or equal to 12 months prior to the case number assignment date**, the adjusted value is the appraised value.

Calculating Maximum Mortgage Amounts

- The maximum mortgage amount that FHA will insure on a specific purchase is calculated by multiplying the appropriate LTV percentage by the **adjusted value**.
- In order for FHA to insure this maximum mortgage amount, for purchase transactions, the borrower must make a **Minimum Required Investment (MRI = Down Payment) of 3.5% of the Adjusted Value.**
- Review the credit report to determine the borrower's **Minimum Decision Credit Score (MDCS)**.
  - The MDCS will be used to determine the maximum insured financing available to a borrower with traditional credit per the table below:

If the borrower's Minimum Decision Credit Score is…..	*Then the borrower is…..*
At or above 580	Eligible for maximum financing
Between 500 and 579	Limited to a maximum LTV of 90%*

*Credit scores below 580 are not allowed on the Platinum program.

Eligible Loan Types and ADP Codes

- The following table reflects eligible loan types and the applicable section of the act and the ADP code.

Section of the Act	*Loan Type*	*ADP Code*
203(b)	Fixed Rate Mortgage	703
203(b)/251	Adjustable Rate Mortgage	729
203(b)/234(c)	Condominium Fixed Rate	734
203(b)/234(c)/251	Condominium ARM	731

LTV Limitations

Identity of Interest

- An Identity-of-Interest transaction is a sale between parties with an existing **business relationship** or between **family members**.
- The maximum LTV percentage for Identity-of-Interest transactions on principal residences is restricted to 85%.
- The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85%.
- The 85% LTV restriction may be exceeded if the borrower purchases as their principal residence:
    - The principal residence of another family member; or
    - A property owned by another family member in which the borrower has been a tenant for at least six months immediately predating the sales contract;
        - A lease or other written evidence to verify occupancy is required.
    - An employee of a builder who is not a family member purchases one of the builder's new houses or models as a principal residence; or
    - When a corporation transfers an employee to another location, purchases the employee's house and sells the house to another employee; or
    - The current tenant purchases the property where the tenant has rented the property for at least six months immediately predating the sales contract.
        - A lease or other written evidence to verify occupancy is required.

Non-Occupying Co-Borrower

- For non-occupying co-borrower transactions, the maximum LTV is 75%.
- The LTV can be increased to a maximum of 96.5% if the borrowers are family members provided the transaction does not involve:
    - A family member selling to a family member who will be a non-occupying co-borrower.

Refinance and New Construction

- The maximum LTV is determined in accordance with Refinance program specific requirements and New Construction program specific requirements.

Required Investment

Total Required Investment

- The total required investment is the amount the borrower must contribute to the transaction including the borrower's down payment and the borrower's paid transaction costs. The total required investment includes the **Minimum Required Investment (MRI = Down Payment)**.
    - The Minimum Required Investment on a purchase transaction is 3.5%.

Mortgage Insurance Premiums

- FHA collects a one-time **Upfront Mortgage Insurance Premium (UFMIP).**
    - The UFMIP may be financed into the loan amount.
    - The UFMIP is not considered when calculating the area-based mortgage limits.
    - The UFMIP is 1.75% of the base loan amount.
    - The UFMIP must be entirely financed in the loan or entirely paid in cash.
    - The mortgage amount must be rounded down to the nearest whole dollar amount regardless of whether the UFMIP is financed or paid in cash.
- The UFMIP is not refundable except in connection with refinancing to a new FHA-insured mortgage.
- FHA also collects an **Annual Mortgage Insurance Premium (MIP)**.
    - The Annual MIP is payable monthly.
    - The amount of the Annual MIP is based on the LTV ratio, base loan amount and the term of the loan.

Applications and Disclosures

Age of Documents

- Documents must be no more than 120 days old at the disbursement date.
- Appraisals must be no more than 120 days old at the disbursement date.
- Appraisals may be extended for 30 days at the option of the lender if:
  - The lender approved the borrower (CTC date) before the expiration date of the original appraisal; or
  - The borrower signed a valid sales contract prior to the expiration date of the appraisal.
- An appraisal update must be performed **before the initial appraisal, with no extension, has expired.**
  - The updated appraisal is valid for a period of 240 days after the effective date of the initial appraisal report.

Handling of Documents

- Do not accept or use documents relating to the employment, income, assets or credit of borrowers that have been handled by, or transmitted from or through the equipment of unknown parties or interested parties.
- Do not accept or use any third party verifications that have been handled by, or transmitted from any interested party or the borrower.
- Authenticate all documents received electronically, such as the fax banner header or the sender's e-mail address, by examining the source identifiers or by contacting the source of the document by telephone to verify the document's validity.
  - Document the name and telephone number of the individual with whom the information was verified and the validity of the document.
- Authenticate documents obtained from an internet website.
  - Examine the Uniform Resource Locator (URL) address as well as the date and time the documents were printed.
  - Visit the URL or the main website listed in the URL if the page is password protected, to verify the website exists and print out evidence documenting the lender's visit to the URL and website.
  - Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document.

Signature Requirements

Initial and Final 1003/92900-A

- All borrowers must sign and date the initial and final Fannie Mae Form 1003, Uniform Residential Loan Application (URLA).
- All borrowers must **sign and date page two of the initial** Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application.
- All borrowers must **sign and date pages two and four of the final** Form HUD-92900-A.
- **Obtain the borrower's initial, complete, signed URLA and signed page two of form HUD-92900-A before underwriting the mortgage application.**
- The application may not be signed by any party who will not be on the note.
- A Power of Attorney (POA) may not be used to sign the applications unless all of the following requirements have been satisfied:
  - For **military personnel**, A POA may only be used for one of the applications (initial or final), but not both:
    - When the service member is on overseas duty or on an unaccompanied tour;
    - When it is not possible to obtain the absent borrower's signature on the application by mail or via fax; and
    - Where the attorney-in-fact has specific authority to encumber the property and obligate the borrower.
  - For **incapacitated borrowers** a POA may only be used where:
    - A borrower is incapacitated and unable to sign the mortgage application;
    - The incapacitated individual will occupy the property to be insured; and

    - The attorney-in-fact has specific authority to encumber the property and to obligate the borrower.
- Borrowers are not permitted to sign documents in blank, incomplete documents, or blank sheets of paper.
- Electronic/digital signatures:
  - Must comply with the Electronic Signature Performance Standards.
  - Are not acceptable if solely voice or audio.
  - Allowed on all documents, except the Note which must not be electronically signed.
  - FHA will accept electronic signatures on third party documents in accordance with the E-Sign Act.
    - Third party documents are those documents that are originated and signed outside of the control of the lender such as the sales contract.

Mortgage Application Name Requirements

- All loan applications must be executed in the **legal names of all parties**.
- Include a statement that the borrower's identity has been validated using valid government issued photo identification; or
  - Include a copy of such photo identification or documentation in the loan file.

Borrower Authorization

- Obtain the borrower's authorization to verify the information needed to process the loan application.
- Obtain a non-borrowing spouse's consent and authorization where necessary to verify specific information required to process the loan application including the non-borrowing spouse's consent to verify their social security number with the Social Security Administration (SSA).
- Blanket authorization forms are allowed.
- Obtain the borrower's signature on Part IV of form HUD-92900-A (top of page two) to verify the borrower's social security number with the Social Security Administration.
- Obtain the borrower's signature on the appropriate Internal Revenue Service (IRS) form to obtain tax returns directly from the IRS for all credit-qualifying loans at the time the final URLA is executed.

Sales Contract and Supporting Documentation

- Do not originate an FHA-insured mortgage for the purchase of a property if any provision of the sales contract violates FHA requirements.
- Ensure that:
  - All purchasers listed on the sales contract are borrowers; and
  - Only borrowers sign the sales contract.
  - An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.
    - The family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

Family Members

Definition

- Family Member is defined as follows regardless of actual or perceived sexual orientation, gender identity or legal marital status:
  - Child, parent or grandparent;
    - A child is defined as a son, stepson, daughter or step-daughter;
    - A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
  - Spouse or domestic partner;
  - Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption;
  - Foster child;
  - Brother, step-brother;

- Sister, step-sister;
- Uncle or Aunt; or
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.

Amendatory Clause

Signature Requirements

- The sales contract **must** be amended to include an amendatory clause that contains the following language:

  "*It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than $____________. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.*"
- Lenders must ensure the actual dollar amount of the sales price stated in the contract has been inserted in the amendatory clause.
  - **Changes to the sales price require a revised amendatory clause.**

Real Estate Certification

Signature Requirements

- The borrower, seller and real estate agent(s) or broker(s) involved in the sales transaction must certify, to the best of their knowledge and belief, that:
  - 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 transaction is part of, or attached to, the sales agreement.
  - Separate certification is not needed if the sales contract contains a statement that:
    - There are no other agreements between the parties and the terms constitute the entire agreement between the parties; and
    - All parties are signatories to the sales contract submitted at the time of underwriting.

HUD Required Disclosures

Initial Disclosures

- Provide or ensure the borrower is provided with any disclosure required by FHA including the following disclosures:
  - **Informed Consumer Choice Disclosure** - This disclosure is required if the borrower may qualify for similar non-FHA insured mortgage products offered by the lender.
  - **FORM HUD-92900-B, Important Notice to Homebuyers** - This disclosure must be provided to and signed by the borrower **when the borrower applies for the mortgage**.
  - **Lead-Based Paint –** If the property was built before December 31, 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house. Ensure that:
    - The borrower has been provided the EPA approved information pamphlet, Protect Your Family From Lead In your Home;

    - The borrower was given a 10-day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment.
    - The sales contract contains an attachment signed and dated by both the seller and buyer:
      - ✓ Containing a lead warning statement;
      - ✓ Providing the seller's disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the property being sold;
      - ✓ Listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in the property being sold; and
    - 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.
  - **Form HUD-92564-CN, For Your Protection: Get a Home Inspection**
    - Lenders are required to provide this form to prospective homebuyers **at first contact, be it for pre-qualification, pre-approval, or initial application.**

4506 Transcripts

IRS Form 4506-T

- A signed 4506-T must be obtained at application and at closing.
- Tax return transcripts must be obtained per the income documentation type contained in the loan file.
- A business 4506-T must be signed for each of the borrower's businesses.
  - Business tax return transcripts are not required.

Case Numbers

Ordering the Case Number

- Case numbers must be ordered through FHA Connection or through the link to FHA Connection located in Lending QB.
- **A case number can be obtained only when there is an active mortgage application for the subject borrower and property.**
- In order to obtain a case number the following information is required:
  - The borrower's name, social security number, and date of birth;
  - The property address; and
  - Certify that there is an active mortgage application for the subject property and the borrower(s).
  - Select the correct Automated Data Processing (ADP) code.
- Case numbers for sponsored originators cannot be ordered unless the sponsored TPO has been registered in FHA Connection.
- If FHA Connection detects that a case number currently exists for the property, another case number will not be assigned.

Cancelling and Reinstating Case Numbers

- The cancellation of a case number may be requested by submitting a request to HUD. A case number will be cancelled only if:
  - An appraisal has not been completed and the borrower will not close the mortgage as an FHA-insured loan.
  - FHA mortgage insurance will not be sought; or
  - The appraisal has already expired.
- Submit a request for cancellation to the FHA Resource Center.
- Request a reinstatement of a cancelled case number by submitting a request to the FHA Resource Center.
- Case numbers that were automatically cancelled will be reinstated only if evidence can be provided that the subject mortgage closed prior to the cancellation of the case number.

Automatic Case Number Cancellations

- Case numbers are automatically cancelled after six months if one of the following "last actions taken" is not performed:
    - Appraisal information entered;
    - Firm Commitment issued by FHA;
    - Insurance application received and subsequent updates; or
    - Notices of Return (NOR) and/or resubmissions are received.
- Updates to the borrower's name and/or property address, an appraisal update, or a transmission of the UFMIP premium are not "last actions taken".

Transferring Case Numbers

- The original lender must assign the case number to the new lender using the Case Transfer function in FHA Connection immediately upon the borrower's request.
    - The original lender may provide processing documents but is not required to do so.
    - The original lender may not charge the borrower for the transfer of any documents.
    - The original lender may negotiate a fee with the new lender for providing the processing documents.
    - The original lender is never entitled to a fee for the transfer of processing documents for a Streamline Refinance.
    - If the transfer involves a rejected mortgage, the original lender must complete the Mortgage Credit Reject function in FHA Connection prior to transferring the loan.
    - Where a case number is transferred to a new approved lender or sponsored TPO, the original lender must complete the appropriate sections in FHA Connection.

Eligibility

Borrower Eligibility

Eligibility Criteria

- Maximum four (4) borrowers per loan.
- A party who has a financial interest in the mortgage transaction, such as the seller, builder, or real estate agent, may not be a co-borrower or co-signer.
- Each borrower must provide evidence of their valid social security number. The following are required:
    - Validate and document a social security number for each borrower, co-borrower, or co-signer on the loan.
    - Resolve any inconsistencies or multiple social security numbers for each individual borrower using a service provider to verify the social security number with the Social Security Administration.
    - The borrower must be old enough to enter into a mortgage Note that can be legally enforced in the state or other jurisdiction where the property is located.
        - There is no maximum age limit for a borrower.
- All occupying and non-occupying borrowers and co-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.
    - In community property states the borrower's spouse is not required to be a borrower or co-signer, however, the security instrument must be executed by all parties necessary to make the lien valid and enforceable under state law.
- Co-signers are liable for the debt and therefore, must sign the Note.
    - Co-signers do not hold an ownership interest in the subject property, therefore, they do not sign the security instrument.
- Non-occupying co-borrowers or co-signers must either be United States citizens or have a principal residence in the U.S.
- U.S. citizenship is not required for mortgage eligibility:

- Determine the residency status of the borrower. **In no case is a social security card sufficient to prove immigration or work status.**
- A borrower with lawful permanent resident alien status is eligible for FHA-insured financing provided the borrower satisfies the same requirements, terms and conditions for those of U.S. citizens.

- A borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:
  - The property will be the borrower's principal residence;
  - The borrower has a valid social security number;
  - The borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.
  - The borrower is eligible to work in the United States as evidenced by the Employment Authorization Document.
    - The Employment Authorization Document is required to substantiate work status.
    - If the Employment Authorization Document will expire within one year, and a prior history of residency status renewals exists, assume that continuation will be granted.
    - If there are no prior renewals, determine the likelihood of renewal based on information from the Department of Homeland Security.
  - Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured mortgages.

Minimum Decision Credit Score (MDCS)

- Where three differing scores are reported the middle score is the MDCS.
- Where two differing scores are reported the MDCS is the lowest score.
- Where only one score is reported that score is the MDCS.
- Where the loan involves multiple borrowers determine the MDCS for each borrower and then select the lowest MDCS for all borrowers.
- The borrower is not eligible for FHA-insured financing if the MDCS is less than 580.

Delinquent Federal Non-Tax Debt

- An application for an FHA-insured loan may not be processed for borrowers with delinquent federal non-tax debt which includes:
  - Deficiency judgments; and
  - Other debt associated with past FHA-insured loans.
- Obtain information on delinquent federal debts from:
  - Public records; and
  - Credit reports
- Check all borrowers against the Credit Alert Verification Reporting System (CAIVRS).
- If a delinquent federal non-tax debt is found, verify the validity and delinquency status of the debt by contacting the credit agency to whom the debt is owed.
  - If the debt was identified through CAIVRS, contact the creditor using the contact phone number and debt reference number reflected in the borrower's CAIVRS report.
  - If the creditor confirms that a debt is valid and in delinquent status, then the borrower is **ineligible for an FHA-insured loan** until the borrower resolves the debt with the creditor.
  - A loan may not be denied solely on the basis of CAIVRS information that has not been verified.
  - If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, continue to process the loan application.
  - Include documentation from the creditor to support the verification and resolution of the debt.
    - For debt reported through CAIVRS, obtain evidence of resolution by obtaining a clear CAIVRS report.

Delinquent FHA-Insured Mortgages

- If a borrower is currently delinquent on an FHA-insured mortgage, they are ineligible for a new FHA-insured mortgaged unless the delinquency is resolved.

Delinquent Federal Tax Debt

- Check public records and credit information to verify that the borrower is not presently 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.
    - Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency to make regular payments and the borrower has made timely payments for at least three months.
        - The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
        - Obtain documentation from the IRS evidencing the repayment agreement and verification of payments made.
        - Include the payment amount in the calculation of the borrower's DTI ratio.

Excluded Parties

- Establish that no participants are Excluded Parties and document the determination on form HUD-92900-LT.
- A borrower is not eligible to participate in FHA-insured mortgage transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.
- Check the HUD LDP and SAM lists to confirm the borrower's eligibility to participate in an FHA-insured mortgage transaction.
    - This is accomplished by entering the names of all parties to the transaction into the Data Verify screens and scoring a report.
- A loan is not eligible for an FHA-insured loan if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions. This may include, but is not limited to:
    - Sellers (except where a seller is selling their principal residence)
    - Listing and Selling Real Estate Agent(s)
    - Loan Originator
    - Loan Processor
    - Underwriter
    - Appraiser
    - Closing Agent
    - Title Company

Requirements for Living Trusts

- A mortgage may be originated for a living trust or for a property held by the living trust provided:
    - The borrower will occupy the subject property as their principal residence;
    - The beneficiary of the living trust is a co-signer; and
    - The trust provides reasonable means to assure that the lender will be notified of:
        - Any changes to the trust, including transfer of beneficial interest; and
        - Any changes in occupancy status of the subject property.
    - The name of the living trust must appear on the security instrument.
    - The name of the individual borrower must appear on the security instrument when required to create a valid lien under state law.
    - The names of the owner-occupant and other borrowers, if any, must also appear on the Note with the trust.
    - The name of the individual borrower is not required to appear on the property deed or title.
- Obtain a copy of the trust documentation.
- Documents for loans where title is taken in a trust cannot be signed with a Power of Attorney.
- Title in land trusts is not allowed.

Occupancy Types

Principal Residence

- An individual may have only one principal residence at any one time.
- At least one borrower must occupy the property **within 60 days** of signing the security instrument and **intend to continue occupancy for at least one year**.
- Military personnel who cannot physically reside in a property because they are on active duty are still considered owner occupants if:
  - A family member of the borrower will occupy the subject property as their principal residence; or
  - The borrower intends to occupy the subject property upon discharge from military service.
    - Obtain a copy of the borrower's military orders evidencing the borrower's active duty status and that the duty station is more than 100 miles from the subject property.
    - Obtain a statement from the borrower detailing their intent to occupy the subject property upon discharge from the military service.
- FHA will not insure the loan if it is determined that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties even if the property to be insured will be the only one owned.
- The table below describes the only circumstances in which a borrower with an existing FHA-insured mortgage may obtain an additional FHA-insured mortgage on a new principal residence:

Policy Exceptions	*Eligibility Requirements*
Relocation	A borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage if the borrower is: • Relocating or has relocated for an employment-related reason; and • Is establishing or has established a new principal residence in an area more than 100 miles from the borrower's current principal residence.
Increase in Family Size	A borrower may be eligible to purchase another home with an FHA-insured mortgage if the borrower provides satisfactory evidence that : • The borrower has had an increase in legal dependents and their current property now fails to meet the family's needs; and • The Loan-to-Value (LTV) ratio on the current principal residence is equal to or less than 75% or is paid down to that amount based on the outstanding mortgage balance and a current residential appraisal.
Vacating a Jointly Owned Property	A borrower may be eligible for another FHA-insured mortgage if the borrower is vacating (with no intent to return) the principal residence which will remain occupied by an existing co-borrower.
Non-Occupying Co-Borrower	A non-occupying co-borrower with an existing FHA-insured mortgage may qualify for an FHA-insured mortgage on a new property to be the primary borrower's own principal residence.

Fees, Credits and Cash to Close

Cash to Close

- Document all funds that are used for the purpose of qualifying for or closing a loan including those to satisfy debt or pay costs outside of closing.
- Verify and document that the borrower has sufficient funds from an acceptable source to facilitate the closing.
- Cash to close may include:
  - The lender's origination fee;
  - Reasonable and customary closing costs;
  - Discount points for the interest rate chosen;
  - Prepaid items which may include:
    - Hazard and flood insurance premiums;
    - Mortgage insurance premiums;

    - Real estate taxes; and
    - Per diem interest;
  - Upfront Mortgage Insurance Premium (UFMIP) amounts paid in cash.
    - The UFMIP must be entirely financed into the loan; or
    - Entirely paid in cash.
  - Non-realty and personal property items that the borrower agrees to pay for separately; and
  - Repairs and improvements or any portion paid by the borrower that cannot be financed into the mortgage.

Minimum Required Investment (Down Payment)

- Minimum Required Investment (MRI) refers to the required cash down payment of 3.5%.
- Closing costs, prepaid items, and other fees **may not be** applied towards the borrower's down payment (MRI).
- The refund of the borrower's POCs may be used toward the borrower's down payment (MRI) if it can be documented that the POCs were paid with the borrower's own funds (not charged on a credit card).
- The borrower's down payment (MRI) **must not** come from:
  - The seller of the property;
  - 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 noted above.
- Where real estate tax credits are paid in arrears, the seller's real estate tax credit may be used to meet the down payment (MRI) if:
  - There is documentation in the file to show that the borrower had sufficient assets to meet the Minimum Required Investment; and
  - The borrower paid closing costs at the time of underwriting.
- Governmental entities, when acting in their governmental capacity, may provide the borrower's down payment (MRI) where the governmental entity is originating the funds through one of its homeownership programs.

Premium Pricing

- Premium pricing refers to a credit from the lender for the interest rate chosen.
- Premium pricing may be used to pay a borrower's actual closing costs and/or prepaid items.
  - Closing costs paid in this manner do not need to be included as part of the interested party limitation of 6%.
- The funds derived from a premium priced mortgage:
  - Must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
  - May not be used for payment of debts, collection accounts, escrow shortages, missed mortgage payments, or judgments.

Interested Party Contributions

- Interested parties are:
  - Sellers;
  - Real Estate Agents;
  - Builders;
  - Developers; or
  - Other parties with an interest in the transaction.
- Interested parties may contribute up to **6% of the sales price** towards:
  - The borrower's origination fee, other closing costs, and discount points;
  - Payment for permanent and temporary interest rate buy downs;
  - Payments of mortgage interest for fixed rate mortgages;
  - Mortgage payment protection insurance; and
  - Payment of the Upfront Mortgage Insurance Premium (UFMIP).
- Interested party contributions **may not be** used for the borrower's down payment (MRI) of 3.5%.

- Interested party credits may be applied to the closing costs and prepaid items including any items paid outside of closing (POC).
- The interested party contributions must be documented on form HUD-92900-LT, Closing Disclosure (CD) or similar legal document, and on the sales contract.

Inducements to Purchase

- Inducements to purchase refer to certain expenses paid by the seller and/or another interested party on behalf of the borrower.
  - **An inducement to purchase will result in a dollar-for-dollar reduction to the purchase price or appraised value**, whichever is less.
    - The maximum loan amount and LTV will be calculated using the figure after the dollar-to-dollar reduction.
- Inducements to purchase include, but are not limited to:
  - Contributions exceeding 6% of the purchase price;
  - Contributions exceeding the origination fees, other closing costs and discount points;
  - Decorating allowances;
  - Repair allowances;
  - Excess rent credit;
  - Moving costs;
  - Paying off the borrower's consumer debt;
  - Personal property included in the sales transaction;
  - Sales commission on the borrower's present residence; and
  - Below market rent
- An inducement to purchase also exists when:
  - A borrower is not paying a real estate commission on the sale of their present residence;
  - The same real estate broker or agent is involved in both transactions; and
  - The seller is paying a real estate commission on the property being purchased by the borrower that exceeds what is typical for the area.

Items Not Considered to be Inducements to Purchase

- Replacement of existing personal property items listed below are not considered an inducement to purchase provided:
  - **The replacement is made prior to settlement**; and
  - **No cash allowance is given to the borrower**.
    - Range
    - Refrigerator
    - Dishwasher
    - Washer
    - Dryer
    - Carpeting
    - Window Treatment
- Payment of real estate commission or fees typically paid by the seller is not considered an inducement to purchase.

Underwriting Guidelines - Total Scorecard and Manual

Total Scorecard

- **All transactions** must be scored through TOTAL Mortgage Scorecard except streamline refinance transactions.
- Ensure full compliance with all FHA eligibility requirements.
- Verify the information used to score the loan through TOTAL.
  - There is no need to analyze the credit history if an Accept or Approve recommendation is received.
- Fully underwrite those applications where TOTAL issues a Refer.
- Verify the integrity of all data elements entered into the AUS including:

- Borrower's Credit Report
- Borrower's Liabilities/Debt
- Borrower's Effective Income
- Borrower's Assets/Reserves
- Adjusted Value; and
- Borrower's PITI

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Downgrade to Manual Underwriting

- Downgrade and manually underwrite any loan that received an Approve recommendation if:
  - The loan file contains information or documentation that cannot be entered into or evaluated by TOTAL Scorecard.
  - Additional information is discovered that has not been considered in the AUS recommendation but affects the overall insurability of the loan.
  - The borrower has $1,000 or more collectively in disputed derogatory credit accounts.
  - The date of the borrower's bankruptcy discharge is within two years from the date of the case number assignment.
  - The case number assignment date is within three years of the date of the transfer of title through a pre-foreclosure sale (short sale).
  - The case number assignment date is within three years of the date of the transfer of the title through a foreclosure sale or a deed-in-lieu of foreclosure.
  - The mortgage payment history **for any mortgage trade line reported on the credit report** used to score the application requires a downgrade as defined in the "Housing Obligation/Mortgage Payment History" section.
  - The borrower has undisclosed mortgage debt that requires a downgrade; or
  - Business income shows a greater than 20% decline over the analysis period.

Tolerance Levels for Rescoring

When Assessing…	*Rescore is not required if…*
Cash Reserves	Cash reserves verified are not less than 10% below the previously scored amount.
Income	Income verified is not less than 5% below the previously scored amount.
Tax & Insurance Escrow	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the total mortgage payment to income ratio.

Credit History

Credit Requirements

- Obtain a credit report for each borrower who will be obligated on the mortgage Note.
- A joint credit report may be ordered for individuals with joint accounts.
- Obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state.
  - The credit report must indicate the non-borrowing spouse's social security number was matched with the Social Security Administration (SSA).
    - If the credit report does not indicate the non-borrowing spouse's social security number was matched with the SSA, validation through an outside service must be obtained.
  - If the non-borrowing spouse does not have a social security number, the credit report must contain, at a minimum, the following information:
    - The spouse's full name;
    - The spouse's date of birth;
    - The spouse's previous addresses for the last two years.

Credit Report Requirements

- Credit reports must contain all information from at least two credit repositories pertaining to:
    - Credit;
    - Residence History; and
    - Public Records Information.
- The credit report may not contain white-out, erasures or alterations.
- The credit report must include:
    - The name of the lender ordering the report;
    - The name, address and telephone number of the consumer reporting agency;
    - The name and social security number of each borrower;
    - The primary repository from which any particular information was pulled;
    - All inquiries made within the last 120 days;
    - All credit and legal information including information for the last seven years regarding:
        - Bankruptcies
        - Judgments
        - Lawsuits
        - Foreclosures
        - Tax Liens
    - For each debt listed:
        - The date the account was opened;
        - The high credit amount;
        - The required monthly payment;
        - The unpaid balance; and
        - The payment history.

TOTAL Scorecard

- A traditional credit report must be used
- Obtain a new credit report and rescore the loan through TOTAL if the underwriter identifies inconsistencies between any information in the loan file and the original credit report.

Manual Underwriting

- A traditional credit report must be used.
- Obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the loan file and the original credit report.
- Develop credit information separately for any open debt listed on the loan application but not referenced in the credit report.
- Use of non-traditional credit is not permitted (overlay).

Evaluating Credit History

TOTAL Scorecard

- An explanation of collection accounts, charged off accounts, accounts with late payments, judgments or other derogatory information is not required.
- Review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios.
    - 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.
- When a debt or obligation, **other than a mortgage**, not listed on the loan application and/or credit report and considered by the AUS is revealed during the application process:
    - Verify the actual monthly payment amount;
    - Re-submit the loan for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the borrower's debt increases by $100 per month; and
    - Determine that any funds borrowed were not/will not be used for the borrower's down payment.

Manual Underwriting

- Examine the borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the borrower's creditworthiness.
- Do not consider the credit history of a non-borrowing spouse.
- Evaluate the borrower's payment histories in the following order:
  - Previous housing expenses and related expenses, including utilities;
  - Installment debts; and
  - Revolving accounts
- A borrower may be considered to have an acceptable payment history if:
  - The borrower has made all housing and installment payments on time for the previous 12 months;
  - Has no more than two 30-day late **mortgage payments or installment payments** in the previous 24 months; and
  - Has no major derogatory credit on revolving accounts in the previous 12 months.
    - Major derogatory credit on revolving accounts include any payments made more than:
      - ✓ 90 days after the due date; or
      - ✓ Three or more payments more than 60 days after the due date.
- When a debt or obligation is revealed during the application process that was not listed on the loan application and/or credit report, the following are required:
  - Verify the actual monthly payment amount;
  - Include the payment amount in the borrower's monthly liabilities and debt; and
  - Determine that any unsecured funds borrowed were not/will not be used for the borrower's down payment.
- Obtain a written explanation from the borrower for all inquiries shown on the credit report that were made in the last 120 days.
- If a borrower's credit history does not reflect satisfactory credit as stated above, the borrower's payment history requires additional analysis.
- Analyze, the borrower's delinquent accounts to determine whether late payments were based on:
  - A disregard for financial obligations;
  - An inability to manage debt; or
  - Extenuating circumstances.
    - The underwriter must document this analysis in the file.
- Any explanation or documentation of delinquent accounts must be consistent with other information in the file.
- The underwriter may only approve a borrower with a credit history not meeting a satisfactory history if the underwriter has documented the delinquency was related to extenuating circumstances.
  - **Divorce is not considered an extenuating circumstance.**

Evaluating Liabilities and Debts

Housing Obligations/Mortgage Payment History

Total Scorecard

- A mortgage payment is considered delinquent if not paid within the month due.
- The loan must be downgraded to a Refer and manually underwritten if any mortgage trade line, including line of credit payments, during the most recent 12 months reflects:
  - Three or more late payments of greater than 30 days;
  - One or more late payments of 60 days plus one or more 30-day late payments; or
  - One payment greater than 90-days late.
- When an existing debt or obligation that is secured by a mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, obtain a verification of mortgage directly from the servicer.
- The loan must be downgraded to a Refer and manually underwritten if the mortgage history reflects:
  - A current delinquency;

- Any delinquency within 12 months of the case number assignment date; or
- More than two 30-day late payments within 24 months of the case number assignment date.

- A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late payments.
- **For cash-out refinance transactions,** the loan must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line of credit payments reflects:
  - A current delinquency; or
  - Any delinquency within 12 months of the case number assignment date.

Manual Underwriting

- The housing obligation/mortgage payment history is acceptable if:
  - The borrower has made all housing payments on time for the previous 12 months; and
  - Has no more than two 30-day late mortgage payments in the previous 24 months (months 13-24).
- Determine the borrower's housing obligation payment history through:
  - The credit report;
  - Verification of rent received directly from the landlord providing the landlord is a professional management company;
  - Verification of mortgage received directly from the servicer; or
  - A review of cancelled checks that cover the most recent 12 month period.
- For borrowers who indicate they are living rent free obtain:
  - Verification from the property owner where they are residing that:
    - The borrower has been living rent free; and
    - The amount of time the borrower has been living rent free.
- A loan that has been modified must use the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

Disputed Accounts

Disputed Derogatory Accounts – Total Scorecard

- If the credit report indicates that the borrower has $1,000 or more collectively in disputed derogatory accounts, the loan must be downgraded to a Refer and manually underwritten.
- Disputed derogatory credit accounts of a non-borrowing spouse in a community property state **are not** included in the cumulative balance.
- Disputed derogatory credit accounts refer to:
  - Disputed charged off accounts;
  - Disputed collection accounts; and
  - Disputed accounts with late payments in the last 24 months.
- Exclusions from the cumulative balance include:
  - Non-derogatory disputed accounts;
  - Disputed medical accounts; and
  - Disputed accounts resulting from identity theft, credit card theft or unauthorized use. To exclude these balances obtain:
    - A copy of the police report; or
    - Other documentation from the creditor to support the status of the accounts.

Non-Derogatory Disputed Accounts – Total Scorecard

- Non-derogatory disputed accounts include the following:
  - Disputed accounts with zero balances;
  - Disputed accounts with late payments over 24 months;
  - Disputed accounts that are current and paid as agreed.
- If the borrower is disputing non-derogatory accounts, the loan does not have to be downgraded to a Refer.
  - Analyze the effect of the disputed accounts on the borrower's ability to repay the mortgage.

Disputed Derogatory Accounts - Manual Underwriting

- Disputed derogatory credit accounts refer to:
    - Disputed charged off accounts;
    - Disputed collection accounts; and
    - Disputed accounts with late payments in the last 24 months.
- If the borrower has $1,000 or more collectively in disputed derogatory credit accounts, include a monthly payment in the borrower's DTI.
- Disputed derogatory credit accounts of a non-borrowing spouse in a community property state **are not** included in the cumulative balance.
- The following items are excluded from the cumulative balance:
    - Disputed medical accounts; and
    - Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Non-Derogatory Disputed Accounts – Manual Underwriting

- Non-derogatory disputed accounts include the following types of accounts:
    - Disputed accounts with a zero balance;
    - Disputed accounts with late payments aged 24 months or greater; or
    - Disputed accounts that are current and paid as agreed.
- If a borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the lender must:
    - Analyze the effect of the disputed accounts on the borrower's ability to repay the loan.

Collection Accounts

TOTAL Scorecard

- If the credit report shows cumulative outstanding collection account balances of $2,000 or greater the following is required:
    - Verify that the debt is paid in full at the time of, or prior to, settlement using an acceptable source of funds; or
    - Verify that the borrower has made payment arrangements with the creditor and include the payment in the borrower's DTI; or
    - Calculate a monthly payment using 5% of the outstanding balance of each collection and include the payment in the borrower's DTI.
- Collection accounts of a non-borrowing spouse in a community property state **must be** included in the $2,000 cumulative balance.
- Obtain the following documentation:
    - Evidence of payment in full if paid prior to settlement;
    - The payoff statement if paid at settlement; or
    - The payment arrangement with the creditor if not paid prior to settlement.
        - When using 5% of the outstanding balance as a payment, no further documentation is required.

Manual Underwriting

- Determine if the collection accounts were a result of:
    - The borrower's disregard for financial obligations;
    - The borrower's inability to manage debt; or
    - Extenuating circumstances.
- Document the reasons for approving a loan when the borrower has any collection accounts.
- The borrower must provide:
    - A letter of explanation, which is supported by documentation, for each outstanding collection account.

Charged Off Accounts

TOTAL Scorecard

- Charged off accounts do not need to be included in the borrower's liabilities or debts.

Manual Underwriting

- Determine if charged off accounts were the result of:
  - The borrower's disregard for financial obligations;
  - The borrower's inability to manage debt; or
  - Extenuating circumstances.
- Document the reasons for approving a loan when the borrower has any charged off accounts.
  - The borrower must provide a letter of explanation which is supported by documentation for each outstanding charged off account.

Judgments

TOTAL Scorecard and Manual Underwriting

- Verify that court ordered judgments are resolved or paid off prior to, or at, closing.
- Judgments of a non-borrowing spouse in a community property state **must be** resolved or paid in full.
- A judgment is considered to be resolved if:
  - The judgment will not supersede the FHA-insured mortgage lien;
  - The borrower has entered into a valid agreement with the creditor to make regular payments on the debt; and
  - The borrower has made timely payments for at least three months of scheduled payments.
    - The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
    - Obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.
    - Include the payment amount in the borrower's DTI.
- Provide the following documentation:
  - Evidence of payment in full if paid prior to settlement;
  - The payoff statement if paid at settlement; or
  - The payment arrangement with the creditor if not paid prior to, or at settlement; and
  - A subordination agreement for any liens existing on title.

Bankruptcy

TOTAL Scorecard

- Document the passage of two years since the discharge date of any bankruptcy.
- If the bankruptcy was discharged within two years from the date of the case number assignment, the loan must be downgraded to a Refer and manually underwritten.
- If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, obtain the bankruptcy and discharge documents.

Manual Underwriting

Chapter 7 Bankruptcy

- A Chapter 7 liquidation bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage if, at the time of the case number assignment:
  - At least two years have elapsed since the date of the bankruptcy discharge.
  - During this time the borrower must have;
    - Re-established good credit; or
    - Chosen not to incur new credit obligations.
- An elapsed period of less than two years, but not less than 12 months, may be acceptable if the borrower:

- Has since exhibited a documented ability to manage their financial affairs in a responsible manner; and
- Can show that the bankruptcy was caused by extenuating circumstances beyond the borrower's control.
- Extenuating circumstances are:
  - A serious illness; or
  - The death of a wage earner.
  - **Divorce is not considered an extenuating circumstance.**

Chapter 13 Bankruptcy

- A Chapter 13 Bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage if, at the time of the case number assignment, at least 12 months of the pay-out period has elapsed.
- Determine that during this time:
  - The borrower's payment performance has been satisfactory;
  - All required payments have been made on time; and
  - The borrower has received written permission from the bankruptcy court to enter into the mortgage transaction.
- If additional documentation is necessary to determine if any liabilities were discharged, obtain the bankruptcy papers.
- Document that the borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

Pre-Foreclosure Sales (Short Sales)

TOTAL Scorecard

- Document the passage of three years since the date of the short sale.
- If the short sale occurred within three years of the case number assignment date, the loan must be downgraded to a Refer and manually underwritten.
- The three year period begins on the date of transfer of title by short sale.
- If the credit report does not verify the date of the transfer of title by short sale, obtain the short sale documents.

Manual Underwriting

- A borrower is generally not eligible for a new FHA-insured mortgage if they relinquished a property through a short sale within three years from the date of the case number assignment.
- A borrower is considered eligible for a new FHA-insured mortgage if, from the date of the case number assignment for the new loan:
  - All mortgage payments on the prior mortgage were made within the month due for the 12 month period preceding the short sale; and
  - Installment debt payments for the same time period were also made within the month due.
- An exception to the three year requirement may be granted if the short sale was the result of documented extenuating circumstances that were beyond the control of the borrower such as:
  - A serious illness; or
  - The death of a wage earner; and
  - The borrower has re-established good credit since the short sale.
    - If the short sale was the result of a circumstance beyond the borrower's control, the lender must obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control.
- **Divorce is not considered an extenuating circumstance.**
  - An exception may be granted where a borrower's loan was current at the time of the divorce if the ex-spouse was awarded the property in the divorce decree and there was a subsequent short sale.
- 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.

Foreclosure and Deed-in-Lieu of Foreclosure

TOTAL Scorecard

- Manually downgrade to a Refer if the borrower had a foreclosure or deed-in-lieu of foreclosure in which title transferred from the borrower within three years of the case number assignment.
- If the credit report does not verify the date of the transfer of title through the foreclosure or deed-in-lieu of foreclosure, obtain the foreclosure documents or a copy of the deed-in-lieu of foreclosure.

Manual Underwriting

- A borrower is generally not eligible for a new FHA-insured mortgage if the borrower had a foreclosure or a deed-in-lieu of foreclosure in the three year period prior to the date of the case number assignment.
- This three year period begins on the date of the deed-in-lieu of foreclosure or the date that the borrower transferred ownership of the property to the foreclosing entity/designee.
- An exception to the three year requirement may be made if the foreclosure was the result of:
  - Documented extenuating circumstances that were beyond the control of the borrower such as:
    - A serious illness; or
    - Death of a wage earner; and
    - The borrower has re-established good credit since the foreclosure.
- **Divorce is not considered an extenuating circumstance**.
  - An exception may be granted where the borrower's loan was current at the time of the divorce and the ex-spouse was awarded the property in the divorce decree and there was a subsequent short sale.
    - If the foreclosure or deed-in-lieu of foreclosure was the result of a circumstance beyond the borrower's control, obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control.
    - The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.
- If the credit report does not indicate the date of the foreclosure or deed-in-lieu of foreclosure, obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.

Credit Counseling

TOTAL Scorecard

- Participating in a consumer credit counseling program plan does not require a downgrade to a manual underwrite.
- No explanation or other documentation is needed.

Manual Underwriting

- Participating in a consumer credit counseling plan does not disqualify a borrower from obtaining an FHA-insured mortgage, provided that:
  - One year of the pay-out period has elapsed under the plan;
  - The borrower's payment performance has been satisfactory and all required payments have been made on time; and
  - The borrower has received written permission from the counseling agency to enter into the mortgage transaction.

General Liabilities and Debts

TOTAL Scorecard and Manual Underwriting

Non-Borrowing Spouse Debt in Community Property States

- If the borrower resides in a community property state, or the subject property is in a community property state, the debts of the non-borrowing spouse must be included in the borrower's qualifying ratios.
- The non-borrowing spouse's credit history is not considered a reason to deny a loan application.
- Obtain a credit report for the non-borrowing spouse in order to determine the debts that must be counted in the DTI.

Contingent Liabilities

- A contingent liability exists when an individual can be held responsible for the repayment of a debt if **another legally obligated party** defaults on the payment.
- Contingent liabilities may include:
  - Co-signer liabilities;
  - Liabilities resulting from a mortgage assumption without release of liability; and
  - Debts awarded to an ex-spouse in a divorce.
- Include monthly payments on contingent liabilities in the calculation of the borrower's monthly obligations unless:
  - It can be verified that there is no possibility that the debt holder will pursue debt collection against the borrower; or
  - The **other legally obligated party** has made 12 months of timely payments.
- The following documentation is required to exclude contingent liabilities:
  - Mortgage Assumption – Obtain the assumption agreement and deed showing transfer of title out of the borrower's name.
  - Co-Signed Liabilities – Obtain documentation to evidence that **the other party to the debt** has been making regular on-time payments during the previous 12 months and does not have a history of delinquent payments on the loan.
  - Court Ordered Divorce Decree – Obtain a copy of the divorce decree ordering the spouse to make the payments.

Deferred Obligations

- Deferred obligations refer to liabilities that have been incurred but the payment is deferred or has not yet commenced including accounts in forbearance.
- Include deferred obligations in the borrower's liabilities and obtain:
  - Written documentation of the deferral of the liability from the creditor; and
  - Evidence of the outstanding balance and terms of the deferred liability.
- Use the actual monthly payment to be paid on a deferred liability, whenever available, to calculate the DTI.
- If the actual payment is not available, use 5% of the outstanding balance to establish the monthly payment.

30-Day Accounts

- A 30-day account refers to a credit arrangement that requires the borrower to pay off the outstanding balance on the account every month.
- Verify the borrower has paid the outstanding balance in full on every 30-day account each month for the past 12 months.
- 30-day accounts that are paid monthly are not included in the borrower's DTI.
- If the credit report reflects any late payments in the last 12 months, the following is required:
  - Use 5% of the outstanding balance as the borrower's monthly payment to be included in the DTI.
  - Document that funds are available to pay off the balance in excess of the funds and reserves required to close the loan.

Alimony and Child Support

- For alimony:
  - The borrower's income can be reduced by the amount of the alimony payments; or
  - The alimony payment can be included in the borrower's DTI.
- Child support is always to be treated as a liability and included in the borrower's DTI.
- Verify and document the monthly obligation by obtaining:
  - The recorded signed divorce decree;
  - Separation agreement; or
  - Other legal order.

- Obtain the borrower's pay stubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to alimony and/or child support payments.
- Calculate the borrower's monthly obligation from the greater of:
  - The amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or
  - The monthly amount of the garnishment.

Business Debt in Borrower's Name

- When business debt is reported on the borrower's personal credit report the debt must be included in the DTI calculation unless:
  - It can be documented that the debt is being paid by the borrower's business; and
  - The debt was considered in the cash flow analysis of the borrower's business.
    - The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation.
  - When a self-employed borrower states debt appearing on their personal credit report is being paid by their business, the following is required:
    - Obtain documentation that the debt is being paid out of company funds; and
    - That the debt was considered in the cash flow analysis of the borrower's business.

Federal Debt

- Federal debt refers to debt owed to the federal government for which regular payments are being made.
- The amount of the required payment must be included in the calculation of the borrower's total DTI.

Installment Loans

- If the monthly payment shown on the credit report is used to calculate the DTI, no further documentation is required.
- If the credit report does not include a monthly payment for the loan, obtain:
  - A copy of the loan agreement or payment statement.

Private Savings Clubs

- Private savings clubs are a non-traditional method of saving by making deposits into a member-based resource pool.
- If the borrower is obligated to make ongoing contributions under the pooled savings agreement, the obligation must be counted in the borrower's DTI.
- Verify and document the establishment and duration of the borrower's membership in the club and the amount of the borrower's required contribution to the club.
- Obtain the club's account ledgers and receipts and verification from the club treasurer that the club is still active.

Revolving Charge Accounts

- Include the monthly payment shown on the credit report for the revolving charge account.
- Where the credit report does not include a monthly payment for the account, the following is required:
  - Use the payment shown on a current account statement; or
  - Use 5% of the outstanding balance as the payment amount.

Student Loans

- Include all student loans in the borrower's liabilities regardless of the payment type or status of payments including deferred student loans. Obtain:
  - Written documentation of the actual monthly payment;
  - The payment status; and
  - Evidence of the outstanding balance and terms from the creditor.
- Regardless of the payment status, Use the **greater of**;
  - 1% of the outstanding balance on the loan; or
  - The monthly payment reported on the borrower's credit report; or

- The actual documented payment provided the payment will fully amortize the loan over its term.

Obligations Not Considered Debt

- Medical Collections
- Federal, State, and Local Tax Withholding
- Automatic Deductions from Savings if not associated with another type of obligation
- Social Security and Medicare Withholding
- Collateralized Loans Secured by Depository Accounts
- Retirement Contributions such as 401(k) Accounts
- Utilities
- Child Care
- Commuting Costs
- Union Dues
- Insurance (other than property insurance)
- Open Accounts with Zero Balances
- Voluntary Deductions if not associated with another type of obligation

Income Requirements

TOTAL Scorecard and Manual Underwriting

General Income Requirements

- Effective income must be reasonably likely to continue through at least the first three years of the loan.
- The following must be documented:
  - The borrower's income and employment history;
  - The accuracy of the amounts of income being reported; and
  - Whether or not the income can be considered as effective income.
  - **Income may only be considered if it is legally derived and properly reported as income on the borrower's tax returns.**
  - Negative income must be subtracted from the borrower's gross monthly income and not treated as a debt.

Employment Related Income

Current Employment Documentation

For all employment related income, verify the borrower's most recent two years of employment and income.

- To document income obtain:
  - Copies of the most recent pay stub(s) covering a minimum of 30 consecutive days that show the borrower's year-to-date earnings.
  - Copies of W2 forms for the previous two years; and
  - Document current employment with either a Written VOE or a Verbal VOE.
- Re-verification of employment must be completed within 10 days prior to the date of the Note.
  - Verbal re-verification is acceptable.

Past Employment Documentation

- Direct verification of the borrower's employment history for the previous two years is not required if all of the following are met:
  - The current employer confirms a two year employment history or a pay stub reflects a hiring date that confirms at least a two year history; and
  - Only base pay is used to qualify – no overtime or bonus income.
- If the borrower has not been employed with the same employer for the previous two years or all of the above conditions cannot be met, verify a two year history using a YTD paystub covering a minimum of 30 days and:
  - W2s; and
  - Written or Verbal VOE(s); or

- Electronic verification acceptable to FHA; or
- Evidence supporting enrollment in school or the military during the most recent two full years.

Primary Employment

- Primary employment is the borrower's principal employment.
- Primary employment is generally full-time and may be either salaried or hourly.
- Calculate income as follows:
  - For borrowers who are salaried and whose income has been and will likely be consistently earned, use the current salary as effective income.
  - For borrowers who are paid hourly, and whose hours do not vary, use the borrower's currently hourly rate to calculate income.
  - For borrowers who are paid hourly and whose hours vary:
    - Average the income over the previous two years; or
    - If an increase in pay rate can be documented, use the most recent 12 month average of hours at the current pay rate.

Part-Time Employment

- Part-time employment refers to employment that is not the borrower's primary employment and is generally performed for less than 40 hours per week.
- Use part-time employment income as effective income if:
  - The borrower has worked a part-time job **uninterrupted** for the past two years; and
  - The current position is likely to continue.
- Average the income over the previous two years.
  - If an increase in pay rate can documented, use a 12 month average of hours at the current rate of pay.

Seasonal Employment

- Seasonal employment refers to employment that is not year round regardless of the number of hours per week the borrower works.
- Income from seasonal employment may be considered if:
  - The borrower has worked the same line of work for the past two years; and
  - Is reasonably likely to be rehired for the next season.
- For employees with income from seasonal employment, average the income earned over the previous two full years.
  - Unemployment income can be included in the income average if it can be documented that it has been received for two full years.

Employed by Family Owned Business

- Income from a family owned business may be considered if the borrower does not have any ownership interest in the business.
- Verify and document that the borrower is not an owner by using official business documents such as:
  - Corporate Resolutions;
  - Business Organizational Documents;
  - Business Tax Returns;
  - Schedule K1; or
  - An official letter from a certified public accountant on their business letterhead.
- Obtain copies of the borrower's personal tax returns for the most recent two years.

Overtime and Bonus Income

- Overtime and bonus income may be considered if:
  - The borrower has received the income for the past two years; and
  - It is reasonably likely to continue.
- Periods of overtime and bonus income less than two years may be considered if:

  - It can be documented that the overtime and bonus income has been consistently earned over a period of not less than one year; and
  - It is reasonably likely to continue.
- For borrowers with overtime and bonus income, average the income earned over the previous two years
- If the overtime or bonus income from the current year decreases by 20% or more from the previous year, the current year's income must be used.

Commission Income

- Commission income may be considered if:
  - The borrower earned the income for at least one year in the same or similar line of work; and
  - It is reasonably likely to continue.
- For commission income greater than 25% of the borrower's total earnings, obtain signed tax returns, including all applicable schedules, for the past two years.
- Calculate income from commission by using the lesser of:
  - The average net commission income earned over the previous two years; or
  - The length of time the commission income has been earned if less than two years; or
  - The average net commission income earned over the previous one year.
  - Calculate net commission income by subtracting the amount of any unreimbursed employee business expenses shown on the borrower's Schedule A.

Employment Stability

- If the borrower has changed employers more than three times in the previous 12 month period, or has changed lines of work, take additional steps to verify and document the stability of the borrower's employment history.
- Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers, such as:
  - Temp Companies; or
  - Union Trades
- The following must be obtained:
  - Transcripts of training and education demonstrating qualification for a new position; or
  - Employment documentation evidencing continual increases in income and/or benefits.

Employment Gaps

- For borrowers with gaps in employment of six months or more, which is considered an extended absence, the borrower's current income may be considered if it can be verified and documented that:
  - The borrower has been employed in the current job for at least six months at the time of the case number assignment; and
  - A two year work history prior to the absence from employment can be verified.

Expected Income

- Expected income refers to income from:
  - Cost-of-living adjustments;
  - Performance raises;
  - A new job; or
  - Retirement (excluding Social Security income).
- **Expected income from a family owned business may not be used as effective income.**
- Expected income must begin within 60 days of the loan closing.
- Verify and document the existence and amount of the expected income with the employer, in writing, and that it is guaranteed to begin within 60 days of the loan closing.
- For expected retirement income, **other than social security income**, verify the amount and that it is guaranteed to begin within 60 days of the loan closing.
- Income is calculated in accordance with the standards for the type of income that will be received.
- Verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and all other obligations between loan closing and the beginning of the receipt of the income.

Non-Taxable Income (Grossing Up)

- Non-taxable income refers to certain types of income that are not subject to federal taxes which includes, but is not limited to:
    - Some portion or all of social security income;
    - Certain federal government employee retirement income;
    - Railroad retirement benefits;
    - Certain state government retirement income;
    - Certain types of disability and public assistance payments;
    - Child support;
    - Military allowances; and
    - Any other income that can be documented as being exempt from federal income taxes.
- The amount of continuing tax savings attributed to the non-taxable income may be added to the borrower's gross income.
- The percentage of non-taxable income that may be added cannot exceed the greater of:
    - 15%; or
    - The appropriate tax rate for the income amount based on the borrower's tax rate for the previous year.
        - If the borrower was not required to file a federal tax return for the previous tax year, the lender may "gross up" the non-taxable income by 15%.
- Additional adjustments or allowances based on the number of the borrower's dependents may not be made.

Temporary Reductions in Income

- For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, consider the borrower's temporary income as effective income if it can be verified and documented that:
    - The borrower intends to return to work;
    - The borrower has the right to return to work; and
    - The borrower qualifies for the loan using the temporary income.
- For borrowers returning to work after the first mortgage payment due date:
    - Use the borrower's current temporary leave income plus:
        - Any available surplus liquid asset reserves, above and beyond any required reserves, as an income supplement up to the amount of the borrower's pre-leave income.
            - ✓ The amount of the monthly income supplement is the total amount of surplus reserves divided by the number of months between the first payment due date and the borrower's intended date of return to work.
- Provide the following documentation for borrowers on temporary leave:
    - A written statement from the borrower confirming the borrower's intent to return to work and the intended date of return;
    - Documentation generated by the current employer confirming the borrower's eligibility to return to work after the temporary leave; and
    - Documentation of sufficient liquid assets used to supplement the borrower's income through the intended date of returning to work with the current employer.

Rental Income

Subject Property – No History of Rental Income

- Rental income from the subject property may be considered when the subject property is a two-to-four unit dwelling.
- When the borrower does not have a history of rental income from the subject two-to-four unit property, verify and document the proposed rental income by obtaining:
    - An appraisal on form 1025; and
    - The prospective leases, if available.
- To calculate the income use the **lesser of**:

- The monthly operating income; or
- 75% of the lesser of:
  - The fair market value reported by the appraiser; or
  - The rent reflected in the lease or other rental agreement.

Subject Property – With History of Rental Income

- When the borrower has a history of rental income from the subject property two-to-four unit dwelling, verify and document the rental income by obtaining:
  - The borrower's most recent tax returns, including Schedule E, for the previous two years.
  - For properties with less than two years of rental income history document the date of acquisition by providing the Closing Disclosure, deed, or similar legal document.
- To calculate the income, average the amount shown on Schedule E for the past two years.
  - Depreciation, mortgage interest, taxes, insurance and HOA dues may be added back to the net income or loss.
- If the property has been owned less than two years, annualize the rental income for the length of time the property has been owned.

Other Real Estate Holdings

- If rental income is being derived **from the property being vacated by the borrower, the borrower must be relocating to an area more than 100 miles from the borrower's current principal residence.**
- The lender must obtain:
  - A lease agreement of at least one years' duration after the loan closing date;
  - Evidence of payment of the security deposit or the first month's rent; and
  - An appraisal evidencing market rent and that the borrower has **at least 25% equity in the property.**

Other Real Estate – No History of Rental Income

- When the borrower does not have a history of rental income for other real estate property since the previous tax filing:
  - Obtain an appraisal evidencing market rent; and
  - Evidencing that the borrower has at least 25% equity in the property.
- If the property is a one unit property verify and document the proposed rental income by obtaining:
  - An appraisal on form 1004;
  - Form 216 Operating Income Statement; and
  - A copy of the prospective lease, if available.
- If the property is a two-to-four unit property verify and document the proposed rental income by obtaining:
  - An appraisal on form 1025; and
  - Copies of the prospective leases, if available.
- To calculate income deduct from the PITI the **lesser of**:
  - The monthly operating income reported on form 216; or
  - 75% of the lesser of:
    - Fair market rent reported by the appraiser; or
    - The rent reflected in the lease or other rental agreement.

Other Real Estate – With History of Rental Income

- Obtain the borrower's last two years' tax returns with Schedule E.
- Calculate the net rental income by averaging the amount shown on the Sch E.
  - Depreciation shown on the Schedule E may be added back to the net income or loss.
  - If the property has been owned for less than two years, annualize the rental income for the length of time the property has been owned.
  - For properties with less than two years of rental income history, document the date of acquisition by providing the Closing Disclosure, deed or similar legal document.

NOTE: Positive rental income must be added to the borrower's income. Negative rental income must be included as a debt/liability.

Self-Employment Income

TOTAL Scorecard

- Self-employment income refers to income generated by a business in which the borrower has a 25% or greater interest.
- Self-employment income may be considered if the borrower has been self-employed for at least two years.
- If the borrower has been self-employed between one and two 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 years.
- Income obtained from businesses with annual earnings that are stable or increasing is acceptable.
- If the income from businesses shows a greater than 20% decline over the analysis period, downgrade the loan and manually underwrite the loan.
- Obtain complete individual tax returns for the most recent two years.
- Obtain the borrower's business tax returns for the most recent two years unless all of the following are met:
    - Individual tax returns show increasing self-employment income over the past two years;
    - Funds to close are not coming from business accounts; and
    - The loan to be insured is not a cash-out refinance.
- Obtain a Profit & Loss (P&L) statement and Balance Sheet if more than a calendar quarter has elapsed since the date the 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.
- Calculate self-employment income by using the **lesser of**:
    - The average self-employment income over the previous two years; or
    - The average self-employment income earned over the previous one year.

Manual Underwriting

- Self-employment income refers to income generated by a business in which the borrower has a 25% or greater interest.
- Self-employment income may be considered if the borrower has been self-employed for at least two years.
- If the borrower has been self-employed between one and two years, consider the income as effective income if:
    - The borrower was previously employed in the same line of work in which the borrower is self-employed; or
    - In a related occupation for at least two years.
- 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 over the analysis period, document that the business is now stable.
- Income may be considered as stable after a 20% reduction if it can be documented 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.
- Obtain signed completed individual and business federal income tax returns for the most recent two years including all schedules.
- Obtain a Profit & Loss (P&L) statement and Balance Sheet if more than a calendar quarter has elapsed since the date the 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 income used to qualify the borrower exceeds the two year average of tax returns, **an audited P&L or signed quarterly tax returns are required.**
- **Obtain a business credit report for all Corporations and "S" Corporations.**
- Calculate self-employment income by using the **lesser of**:
  - The average self-employment income over the previous two years; or
  - The average self-employment income earned over the previous one year.

Other Sources of Income - TOTAL Scorecard and Manual Underwriting

Alimony and Child Support

- The following documentation must be obtained:
  - A fully executed and recorded copy of the borrower's final divorce decree;
  - Legal separation agreement;
  - Court order; or
  - Voluntary payment agreement.
- When using a final divorce decree, legal separation agreement or court order, document, for the most recent three months, evidence of receipt of the income that supports the amount used to qualify by obtaining:
  - Bank statements reflecting deposit of the income;
  - Cancelled checks; or
  - Documentation from the child support agency.
- Document the voluntary payment agreement with:
  - Twelve months of cancelled checks;
  - Bank statements reflecting deposit of the income; or
  - Tax returns (alimony only).
- Obtain evidence that the income will continue for at least three years.
- When using a final divorce decree, separation agreement or court order, if:
  - The borrower has received consistent alimony or child support income for the most recent three months use the current payment to calculate effective income.
- When using evidence of voluntary payments:
  - If the borrower has received consistent alimony or child support income for the most recent six months, use the current payment to calculate effective income.
  - If the alimony or child support income has not been received consistently for the most recent six months:
    - Use the average of income over the previous two years to calculate effective income.
    - If the alimony or child support income has been received for less than two years, average over the time of receipt.

Annuities

- Annuity income refers to a fixed sum of money periodically paid to the borrower from a source other than employment.
- Verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity payments for at least three years.
- Obtain a bank statement or a transaction history from the bank to evidence receipt of the annuity.
- Use the current rate of the annuity to calculate effective income.
- Subtract any of the annuity asset used for the borrower's required funds to close from the borrower's annuity asset prior to calculating any annuity income.

Automobile Allowance

- Verify and document the automobile allowance received from the employer for the previous two years.
- Obtain tax returns for the previous two years including IRS Form 2106, Employee Business Expenses.
- Determine the portion of the allowance that can be considered effective income.
- Subtract automobile expenses from the current amount of automobile allowance being received before calculating effective income.

- If the borrower uses the standard per-mile rate in calculating automobile expenses, depreciation may be added back to income.
- Expenses that must be treated as recurring debt include:
  - The borrower's monthly car payment; and
  - Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Boarders of the Subject Property

- Rental income from boarders is only acceptable if:
  - the borrower has a two year history of receiving income from boarders and it is reflected on the borrower's tax returns; and
  - The borrower is currently receiving border income.
- Obtain two years' tax returns evidencing income from boarders and the current lease.
- For purchase transactions, obtain a copy of the executed written agreement documenting the boarder's intent to continue boarding with the borrower.
- Calculate effective income by using the lesser of:
  - The two year average from the borrower's tax returns; or
  - The amount on the current lease.

Capital Gains and Losses

- Capital gains refer to a profit resulting from a disposition of a capital asset.
- Capital losses refer to a loss resulting from the disposition of a capital asset.
- When the borrower has a constant turnover of assets resulting in gains or losses, the capital gains or losses must be considered when determining effective income.
- Three years' tax returns are required to evaluate an earnings trend. If the trend:
  - Results in a gain it may be added as effective income; or
  - Constantly shows a loss it must be deducted from the total income.

Disability Benefits

- Disability benefits are benefits received from the Social Security Administration, Department of Veterans Affairs, other public agencies, or a private disability insurance provider.
- Verify and document the borrower's receipt of benefits from any of these sources.
  - Obtain documentation that establishes award benefits to the borrower.
  - If any disability income is due to expire within three years from the date of the loan application, that income cannot be used as effective income.
- If the Notice of Award or equivalent document does not have a defined expiration date, consider the income effective and reasonably likely to continue.
- Do not use a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.
- **Under no circumstances may the nature of the disability or the medical condition of the borrower be reflected in the loan file.**

Disability - Private

- For private disability benefits obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
  - Federal tax returns; or
  - The most recent bank statement evidencing receipt of the income from the insurance provider.
- Use the most recent amount of benefits received to calculate effective income.

Disability - Social Security

- 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 of the following documents:

  - Federal tax returns;
  - The most recent bank statement evidencing receipt of income from the Social Security Administration;
  - A Proof of Income letter, also known as a Budget Letter or Benefits Letter that evidences income from the Social Security Administration; or
  - A copy of the borrower's social security 1099.
- Use the most recent amount of benefits received to calculate effective income.

Disability - VA

- For VA disability benefits obtain a copy of the Veteran's last Benefits Letter showing the amount of the assistance and one of the following documents:
  - Federal tax returns; or
  - The most recent bank statement evidencing receipt of income from the VA.
- If the Benefits Letter does not have a defined expiration date, consider the income effective and reasonably likely to continue.
- Use the most recent amount of benefits received to calculate effective income.

Individual Retirement Account and 401k

- Verify and document the borrower's receipt of recurring IRA/401k distribution income and that it is reasonably likely to continue for three years.
- Obtain the most recent IRA/401k statement and any one of the following documents:
  - Federal tax returns; or
  - The most recent bank statement evidencing receipt of the income.
- For borrowers with IRA/401k income that has been and will be consistently received use the current amount of IRA/401k income received to calculate effective income.
- For borrowers with fluctuating IRA/401k income use the average of the IRA/401k income received over the previous two years to calculate effective income.
  - If the IRA/401k income has been received for less than two years, use the average over the time of receipt.

Investment Income

- Investment income refers to interest and dividend income and income from assets such as:
  - Certificates of Deposit;
  - Mutual Funds;
  - Stocks and Bonds;
  - Money Market Accounts; and
  - Savings and Checking Accounts.
- Verify and document the borrower's investment income by obtaining:
  - Tax returns for the previous two years; and
  - The most recent account statement reflecting sufficient funds to support the income for three years.
- Calculate investment income by using the **lesser of**:
  - The average investment income earned over the previous two years; or
  - The average investment income earned over the previous one year.
- Subtract any of the assets used for the borrower's liquid assets prior to calculating any interest or dividend income.

Military Income

- Military income refers to income received by military personnel during their period of Active Duty, Reserve, or National Guard service, including:
  - Base Pay
  - Basic Allowance for Housing
  - Clothing Allowances
  - Flight or Hazard Pay

    - Basic Allowance for Subsistence
    - Proficiency Pay
- **Military education benefits may not be used as effective income.**
- Obtain a copy of the borrower's military Leave and Earnings Statement (LES).
- Verify the Expiration Term of Service (ETS) date on the LES.
- If the Expiration Term of Service date is within the first 12 months of the loan, military income may only be considered effective income if:
    - The borrower represents in writing their intent to continue military service; and
    - Their Commanding Officer or Personnel Officer verifies the borrower is eligible for re-enlistment.
- Use the current amount of military income received to calculate effective income.

Notes Receivable Income

- Verify and document the existence of the note.
- Verify and document the note payments have been consistently received for the previous 12 months by obtaining:
    - Tax returns;
    - Bank statements reflecting the deposit of the income; or
    - Cancelled checks.
- Verify that the note payments are guaranteed to continue for the next three years.
- For borrowers who have been and will be receiving a consistent amount of notes receivable income, use the current rate of income to calculate effective income.
- For borrowers whose notes receivable income fluctuates, use the average of the note receivable income received over the previous year to calculate effective income.

Pension Income

- Pension income refers to income received from the borrower's former employer.
- Verify and document the borrower's receipt of periodic payments from the borrower's pension and that the payments are likely to continue for at least three years.
- Obtain any one of the following documents:
    - Federal tax returns;
    - The most recent bank statement evidencing receipt of income from the former employer; or
    - A copy of the borrower's pension/retirement award letter from the former employer.
- Use the current amount of pension income received to calculate effective income.

Social Security Income

- Social Security income refers to non-disability income received from the Social Security Administration.
- Verify and document the borrower's receipt of income from the Social Security Administration and that it is likely to continue for at least three years.
- Document the continuance of this income by obtaining:
    - A copy of the last Notice of Award letter reflecting the borrower's eligibility for social security income; or
    - An equivalent document that establishes award benefits to the borrower.
    - **Note: An award letter or equivalent is mandatory.**
- In addition to the award letter, obtain any one of the following documents:
    - Federal tax returns;
    - The most recent bank statement evidencing receipt of income from the Social Security Administration; or
    - A Proof of Income Letter also known as a Budget Letter or Benefits Letter that evidences income from the Social Security Administration.
    - Use the current amount of social security as effective income.
- If the social security benefit is due to expire within three years from the date of the case number assignment, that income may not be used for qualifying.
- **If the Notice of Award letter specifies a future start date for receipt of the income, the income may not be used until the specified start date.**

- If the Notice of Award letter does not have a defined expiration date, consider the income effective and reasonably likely to continue.
    - Additional documentation from the borrower to demonstrate continuance of the social security income may not be requested.

Trust Income
- Verify and document the existence of the Trust Agreement or obtain a Trustee statement.
- Verify and document the frequency, duration and amount of the distribution by:
    - Obtaining a bank statement or transaction history from the bank.
- Verify that regular payments will continue for at least three years.
- Use the income based on the terms and conditions in the Trust Agreement or other Trustee statement to calculate effective income.

Sources of Funds for Cash to Close and Reserves

General Asset Requirements
- Only assets derived from an acceptable source may be used.
- **All** assets submitted to the AUS must be verified and documented.

Reserves
- Reserves may not come from:
    - Gifts;
    - Salary Advances
    - The amount of cash taken at settlement in a cash out transaction;
    - Incidental cash received at settlement in other loan transactions;
    - Equity in another property; or
    - Borrowed funds **from any source.**
- For three-to-four unit properties, when the loan is underwritten by TOTAL Scorecard, or is manually underwritten and ratios do not exceed 31/43, verify and document reserves equivalent to three months' PITI reserves.
- For one-to-two unit properties, when the loan is manually underwritten, verify and document reserves equal to one month's PITI (ratios not to exceed 31/43)

Cash on Hand
- Verify that the borrower's cash on hand is deposited in a financial institution or held by the escrow/title company.
- Verify and document the borrower's cash on hand by obtaining a budget letter from the borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.
- Determine the reasonableness of the accumulation based on the time period during which the funds were saved and the borrower's:
    - Income stream;
    - Spending habits;
    - Documented expenses; and
    - History of using financial institutions (there should be little or none).

Checking and Savings Accounts
- Verify and document the existence of and amounts in the borrower's checking and savings accounts.
- For recently opened accounts and recent individual deposits of more than 1% of the adjusted value, the following must be obtained:
    - Documentation verifying the source of the deposits; and
    - Verification that no debts were incurred to obtain part, or all of the down payment.
- If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access and use of the funds in the account.
- Obtain a bank statement reflecting the previous month's ending balance for the most recent month.

  - If the previous month's balance is not reflected, obtain bank statements for the most recent two months.

Earnest Money Deposit

- Verify and document the deposit amount and source of funds if:
  - The amount of the earnest money deposit exceeds 1% of the sales price; or
  - Is excessive based on the borrower's history of accumulating savings.
  - Obtain:
    - A copy of the borrower's cancelled check;
    - Certification from the deposit holder acknowledging receipt of the funds; and
    - A bank statement showing the earnest money check cleared the borrower's account.
- If the source of the earnest money deposit was a gift, verify that the gift complies with the gift funds documentation requirements.

Employer Assistance

- Employer assistance refers to benefits provided by an employer to relocate the borrower or assist the borrower's housing purchase, including closing costs, MIP, or any portion of the down payment (MRI).
  - Employer assistance does not include benefits provided by an employer through secondary financing.
- The net proceeds may be used as cash to close.
- If the borrower is being transferred by their company under a guaranteed sales plan, obtain:
  - An executed buyout agreement signed by all parties indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt ;
  - Evidence of receipt of funds; and
  - If the employer provides this benefit after settlement, verify and document that the borrower has sufficient cash for closing.

Gifts

- Gifts may be provided by:
  - The borrower's family member;
  - The borrower's employer or labor union;
  - A close friend with a clearly defined and **documented** interest in the borrower;
  - A charitable organization; or
  - A governmental agency or public entity that has a program providing homeowner assistance to:
    - Low or moderate income families; or
    - First time homebuyers.
- **Cash on hand is not an acceptable source of donor gift funds.**
- Obtain a gift letter signed and dated by the donor and the borrower that includes the following:
  - The donor's name, address and telephone number;
  - The donor's relationship to the borrower;
  - The dollar amount of the gift; and
  - A statement that no repayment is required.
- Verify and document the transfer of the gift funds from the donor to the borrower by providing the following:
  - If the gift funds have been verified in the borrower's account, obtain the **donor's bank statement showing the withdrawal** and evidence of deposit into the borrower's account.
  - If the gift funds are not verified in the borrower's account, obtain the certified check, money order, cashier's check, wire transfer or other official check, and **a bank statement showing the withdrawal from the donor's account.**
- If the gift funds are paid directly to the settlement agent verify that:
  - The settlement agent received the funds from the donor for the amount of the gift; and
  - **A bank statement showing the withdrawal from the donor's account**.
- If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available:

  - Have the donor provide written evidence that the funds were borrowed from an acceptable source; and
  - Document the gift funds were not from a party to the transaction.
    - The lender and its affiliates are prohibited from providing the loan of gift funds to the donor.
- **Regardless of when gift funds are made available to the borrower, the lender must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.**

Gifts of Equity

- Only family members may provide equity credit as a gift on property being sold to other family members.
- Obtain a gift letter signed and dated by the donor and borrower that includes the following:
  - The donor's name, address and telephone number;
  - The donor's relationship to the borrower;
  - The dollar amount of the gift; and
  - A statement that no repayment is required.
- The gift of equity must be reflected on the final Closing Disclosure.

Private Savings Clubs

- Private Savings Clubs are a non-traditional method of savings by making deposits into a member-managed resource pool.
- Private savings club funds that are distributed to and received by the borrower are an acceptable source of funds.
- Verify and document:
  - The establishment and duration of the club;
  - The borrower's receipt of funds from the club; and
  - Determine that the received funds were reasonably accumulated and not borrowed. Obtain:
  - the club's account ledgers and receipts; and
  - Verification from the club treasurer that the club is still active.

Real Estate Commission from Sale of the Subject Property

- Real estate commission from the sale of the subject property refers to the borrower's/buyer's portion of a real estate commission earned from the sale of the property being purchased.
- Real estate commission from the sale of the subject property may be considered as part of the borrower's acceptable source of funds if the borrower is a licensed real estate agent.
- A family member entitled to the commission may also provide it as a gift in compliance with standard gift requirements.
- Verify and document that:
  - The borrower or family member giving the commission as a gift is a licensed real estate agent; and
  - Is entitled to a commission from the sale of the property being purchased.

Rent Credits

- Rent credit refers to the amount of the rental payment that exceeds the appraiser's estimate of fair market rent.
- Use the cumulative amount of rental payments that **exceeds the appraiser's estimate of fair market rent** towards the down payment.
- Obtain:
  - The rent with option to purchase agreement;
  - The appraiser's estimate of fair market rent; and
  - Evidence of receipt of rent payments.

Retirement Accounts

- Up to 60% of the vested value of the borrower's retirement account, less any existing loans, may be considered from the following types of accounts:
  - IRA Accounts;
  - Thrift Savings Plans
  - 401k Accounts; and
  - KEOUGH accounts.
- The allowable portion of the assets not used to meet closing requirements may be counted as reserves.

Sale of Personal Property

- Personal property is tangible property, other than real property, such as:
  - Automobiles;
  - Recreational Vehicles;
  - Stamps;
  - Coins; or
  - Other Collectibles
- Borrowers may sell personal property to obtain cash for closing. Obtain:
  - A satisfactory estimate of the value of the item;
  - A copy of the bill of sale; and
  - Evidence of receipt and deposit of the proceeds.
- A value estimate may take the form of:
  - A published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations; or
  - A separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.
- Use, as assets, the **lesser of**:
  - The estimated value; or
  - The actual sales price.

Sale of Real Property

- Net proceeds from the sale of real property may be used as an acceptable source of funds.
- Verify and document the actual sale and the net sale proceeds by obtaining a fully executed Closing Disclosure or similar legal document.
- Also verify and document that **the transaction was arms-length** and that the borrower is entitled to the net sale proceeds.

Stocks and Bonds

- Determine the value of the stocks and bonds from the most recent monthly or quarterly statement.
  - Evidence of liquidation is not required.
- If the stocks and bonds are not held in a brokerage account, determine the current value of the stocks and bonds through third party documentation.
- Government issued savings bonds are valued at the original purchase price unless verification and documentation that the bonds are eligible for redemption is obtained.

Secondary Financing

Definition

- Secondary financing is any financing, other than the first mortgage, that creates a lien against the property.
- Any such financing creating a lien against the property is not considered as a gift or grant even if it does not require regular payments or has other features forgiving the debt.

Secondary Financing Provided by Family Members

- FHA will insure a first mortgage on a property that has a second mortgage or lien held by a family member provided that:
  - **The secondary financing is disclosed at the time of application**.
    - If the secondary financing is not disclosed at the time of the loan application, **the secondary financing is ineligible**.
  - Costs associated with the secondary financing may not be financed with the FHA-insured first mortgage;
  - The secondary financing payments must be included in the PITI.
  - The secondary financing must not result in cash back to the borrower;
  - The secondary financing may be used to meet the borrower's down payment;
  - **The CLTV may not exceed 100%;**
  - The second lien may 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 lending source may not be an entity with an identity-of-interest in sale of the property such as the:
    - Seller;
    - Builder;
    - Loan Originator; or
    - Real Estate Agent.
  - Mortgage companies with retail banking affiliates may 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 borrower.
  - 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; and
  - The secondary financing provided by the family member must not be transferred to another entity at or subsequent to closing.
- If the secondary financing funds are being borrowed by the family member and documentation from the bank or other savings account is not available, have the family member provide:
  - Written evidence that the funds were borrowed from an acceptable source; and
  - Evidence the funds were not borrowed from a party to the transaction.
- Obtain from the provider of the secondary financing:
  - Documentation showing the amount of funds provided to the donor for each transaction and the source of funds; and
  - Copies of the loan instruments.

Private Individuals and Other Organizations

- FHA will insure a first mortgage on a property that has a second mortgage or lien held by private individuals and other organizations provided that:
  - **The secondary financing is disclosed at the time of application**;
    - If the secondary financing is not disclosed at the time of the loan application, **the secondary financing is ineligible**.
  - Costs associated with the secondary financing may not be financed with the FHA-insured first mortgage;
  - The secondary financing payments must be included in the PITI;
  - The secondary financing must not result in cash back to the borrower;
  - The secondary financing **may not** be used to meet the borrower's down payment;
  - **The CLTV must not exceed the applicable FHA LTV limit**;
  - **The base loan amount and secondary financing amount must not exceed the Nationwide Mortgage Limits**;

  - The second lien may 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.
- Obtain from the provider of any secondary financing:
  - Documentation showing the amount of funds provided to the borrower for each transaction; and
  - Copies of the loan instruments.

Other Types of Loans

Collateralized Loans

- A collateralized loan is a loan that is fully secured by a financial asset such as:
  - Deposit accounts;
  - Certificates of Deposit;
  - Investment accounts;
  - Real property; and
  - Stocks and bonds;
- Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes.
  - Reduce the amount of the corresponding asset by the amount of the collateralized loan.
- Only an independent third party may provide the borrowed funds for collateralized loans.
- The seller, real estate agent or broker, lender, or other interested party may not provide such funds.
- Unacceptable borrowed funds include:
  - Unsecured signature loans;
  - Cash advances on credit cards;
  - Borrowing against household goods and furniture; and
  - Other similar unsecured financing.
- Verify and document:
  - The existence of the borrower's assets to collateralize the loan;
  - The promissory note securing the assets; and
  - The loan proceeds.

Final Underwriting Decision

TOTAL Scorecard

- Approve the loan as eligible for FHA insurance endorsement if:
  - TOTAL Mortgage Scorecard rated the loan application as Accept;
  - The underwriter underwrote the appraisal according to standard FHA requirements;
  - The underwriter reviewed the TOTAL Mortgage Scorecard findings and verified that all information entered into TOTAL Scorecard is consistent with the loan documentation and is true, complete, and accurate; and
  - The loan meets all FHA requirements applicable to mortgages receiving a rating of Accept from TOTAL Scorecard.
- While TOTAL Scorecard is available for underwriters to use in their pre-qualification process of loan applicants, the loan must be scored at least once after the assignment of an FHA case number.
  - FHA will not recognize the risk assessment nor will information be carried from TOTAL Scorecard to FHA Connection for endorsement processing without the case number.
  - It is imperative that the FHA case number be entered into Lending QB as soon as it is known.
- Complete the following documents to evidence the final underwriting decision:
  - **Form HUD-92900-LT, FHA Loan Underwriting Transmittal Summary.**
  - Include the following on Form HUD-92900-LT:
    - Indicate the CHUMS ID of the underwriter who reviewed the appraisal;
    - Complete the risk assessment; and
    - Enter the identification of "ZFHA" as the CHUMS ID number.

  - When the feedback certificate indicates "Accept/Ineligible", in the "remarks" section of the LT document the circumstances or other reasons that were evaluated in making the decision to approve the loan.
- **Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value.**
  - Confirm that Form HUD-92800.5B is completed as directed in the form instructions.
- **Form HUD-92900-A, HUD Addendum.**
  - Complete form HUD-92900-A as directed in the form instructions.
  - An authorized officer of the lender, the borrower and the underwriter must execute form HUD- 92900-A.

Conditional Approval

- Condition the approval of the borrower on the completion of the final 1003 and final Form HUD-92900-A.
  - If the loan involves a HUD employee, condition for the loan to be approved by HUD.
  - Submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting and approval.
- Provide timely notification to the borrower of their approval.
- The approval or the Firm Commitment is valid 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.

Denial of the Loan

- The Mortgage Credit Reject must be completed in FHA Connection unless the loan was denied due to an overlay that is not an FHA requirement.

Manual Underwriting

- Review each loan as a separate and unique transaction recognizing that there may be multiple factors that demonstrate a borrower's ability and willingness to make timely mortgage payments.
  - Evaluate the totality of the borrower's circumstances and the impact of layering risks on the probability that a borrower will be able to repay the mortgage obligation according to the terms of the mortgage.
  - Review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
  - Determine the acceptability of the appraisal, the inspections, the borrower's capacity to repay the loan, and the overall acceptability of the mortgage for FHA insurance;
  - Identify any inconsistencies in the information obtained; and
  - Resolve all inconsistencies identified before approving the borrower's application, and document in the loan file, the inconsistencies and the resolutions of the inconsistencies.
- Identify and report any misrepresentations, violations of HUD requirements, and fraud to your direct supervisor.
- Determine the creditworthiness of the borrower which includes analyzing the borrower's overall pattern of credit behavior and the credit report.
  - Compensating factors cannot be used to compensate for any derogatory credit.
- Ensure that there are no other unpaid obligations incurred in connection with the loan transaction or the purchase of the property.
- Review the income of the borrower and verify that it has been supported with the proper documentation.
- Review the assets of a borrower and verify they have been supported with proper documentation.
- Review the MIP and loan amount for accuracy.
- For all transactions, except non-credit qualifying streamline refinances, calculate the borrower's total mortgage payment to effective income ratio (PTI) and the total fixed payment to effective income ratio

(DTI) and verify compliance with the ratio requirements listed in the Approvable Ratio Requirements Chart.

- The total mortgage payment includes:
  - Principal and Interest;
  - Real Estate Taxes;
  - Hazard Insurance;
  - Flood Insurance as applicable;
  - MIP;
  - HOA fees or expenses;
  - Ground Rent;
  - Special Assessments;
  - Payments for any acceptable secondary financing; and
  - Any other escrow payments.
- Use accurate estimates of monthly tax escrows when calculating the total mortgage payment.
  - In new construction cases, property tax estimates **must be based on the land and improvements.**
  - Where real estate taxes are abated, 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 years of the loan.
- The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the HOA fees before computing qualifying ratios provided the borrower provides proper documentation such as statements from the utility company.
- The total fixed payment includes:
  - The total mortgage payment; and
  - Monthly obligations on all debts and liabilities.

Manual Approvable Ratio Requirements

- The maximum PTI and DTI applicable to manually underwritten loans are summarized in the matrix below

Lowest Minimum Decision Credit Score	*Maximum Qualifying Ratios*	*Acceptable Compensating Factors*
500-579	31/43	Not applicable. Borrowers with minimum decision credit scores below 580 may not exceed 31/43 ratios.
580 and Above	31/43	No compensating factors required.
580 and Above	37/47	**One** of the following: • Verified and documented cash reserves; • Minimal increase in housing payment; or • Residual income
580 and Above	40/40	No discretionary debt.
580 and Above	40/50	**Two** of the following: • Verified and documented cash reserves; • Minimal increase in housing payment; • Significant additional income not reflected in effective income; and/or • Residual income

Documenting Acceptable Compensating Factors

Following are the compensating factors and required documentation that may be used to justify approval of manually underwritten loans with qualifying ratios as described in the matrix above.

Cash Reserves

- Verified and documented cash reserves may be cited as a compensating factor subject to the following requirements:
  - Reserves are equal to or exceed three total monthly mortgage payments (one and two units); or
  - Reserves are equal to or exceed six total monthly mortgage payments (three and four units).
  - The following items may not be considered as reserves:
    - The total funds required to close the loan;
    - Gifts;
    - Salary advances;
    - Borrowed funds; and
    - Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the loan transaction.

Minimal Increase in Housing Payment

- A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:
  - The new total monthly mortgage payment does not exceed the current total monthly housing payment by more than $100 or 5%, whichever is less; and
  - There is a documented 12 month housing payment history with no more than one 30-day late payment.
    - **In cash out transactions all payments on the loan being refinanced must have been made within the month due for the previous 12 months**.
  - If the borrower has no current housing payment this compensating factor may not be used.

No Discretionary Debt

- No discretionary debt may be cited as a compensating factor subject to the following requirements:
  - The borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
  - The credit report shows established credit lines in the borrower's name open for at least six months; and
  - The borrower can document that these accounts have been paid off in full monthly for at least the past six months.
  - Credit lines for which the borrower is an authorized user do not qualify for this compensating factor.
  - Borrowers with no established credit, no other credit lines in their own name opened for at least six months, or cannot document that all other accounts are paid in full monthly do not qualify for this compensating factor.

Significant Additional Income

- Additional income from overtime, bonuses, part-time or seasonal employment that was not used as effective income can be cited as a compensating factor subject to the following requirements:
  - Verify and document that the borrower has received this income for at least one year and it will likely continue; and
  - The income, if it were included in effective income, would be sufficient to reduce the qualifying ratios to no more than 37/47.
  - Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.
- This compensating factor may be cited only with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

Residual Income

- Residual income may be cited as a compensating factor provided it can be documented it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Income by Region.
- Residual income is calculated as total effective income of all occupying borrowers minus:
  - Federal income tax withholding;

- State income tax withholding;
- Municipal and other income tax withholding;
- Social Security and Medicare withholding;
- PITI;
- Estimated maintenance and utilities;
- Job related expenses (such as child care and union dues); and
- The amount of the gross up of any non-taxable income.
  - For federal taxes, state taxes, local taxes, and social security/Medicare, use tax tables or pay stubs.
  - For estimating maintenance and utilities multiply the gross living area (sq ft) of the property by .14% (14 cents).
- To use residual income as a compensating factor determine the borrower's family size by:
  - Counting all members of the household of the occupying borrower:
    - Without regard to the nature of their relationship; and
    - Without regard to whether they are joining on title or the note.
      - ✓ Any individual may be omitted from family size if they are fully supported from a source of verified income which has not been used in effective income.
      - ✓ These individuals must voluntarily provide sufficient documentation to verify their income in order to qualify for this exception.
- From the Table of Residual Income by Region select the applicable mortgage amount, region, and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

Table of Residual Incomes by Region For Loan Amounts of $79,999 and below				
Family Size	***Northeast***	***Midwest***	***South***	***West***
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1004
Over 5	Add $75 for each additional member up to a family of seven			

Table of Residual Incomes by Region For Loan Amounts of $80,000 and Above				
Family Size	***Northeast***	***Midwest***	***South***	***West***
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1,003	$1,117
5	$1,062	$1,039	$1,039	$1,158
Over 5	Add $80 for each additional member up to a family of seven			

Key to Geographic Regions	
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
South	Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia, West Virginia
West	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Manual Approval

- A loan must be re-underwritten when any data element of the loan changes and/or new borrower information becomes available.
  - For cases involving loans to HUD employees, and for test cases, complete the following forms and submit the completely underwritten mortgage application to FHA for review and issuance of a Firm Commitment prior to closing.
- Complete the following documents to evidence the final underwriting decision:
  - **Form HUD-92900-LT, FHA Loan Transmittal Summary**
    - Record the following items on the Form HUD-92900-LT:
      - ✓ The decision;
      - ✓ Any compensating factors;
      - ✓ Any modification of the loan amount and approval conditions under "Underwriter Comments"; and
      - ✓ The underwriter's DE CHUMS number and signature.
  - **Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value**
    - Confirm that Form HUD-92800.5B is completed as directed in the form instructions.
  - **Form HUD-92900-A, HUD/VA Addendum**
    - Complete Form HUD-92900-A as directed in the form instructions.
- Condition the approval of the borrower on the completion of the final 1003 and HUD Addendum.
  - If the loan involves a HUD employee, condition the loan on the approval of the mortgage by HUD.
  - Submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.
- Provide timely notification to the borrower of their approval.
- The approval or Firm Commitment is valid for the **greater of** 90 days of 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.

Denial of the Loan

- Complete the Mortgage Credit Reject in FHA Connection unless the denial is due to an overlay that is not an FHA requirement.

Property Eligibility and Acceptability Criteria

Property Eligibility

Eligible Properties

- The property must be located within the U.S.
- One-to-Four unit detached or attached dwellings, PUDS, and FHA-approved condominiums.

Coastal Barrier Resources System

- In accordance with the Coastal Barrier Resources Act a property is not eligible for FHA mortgage insurance if the improvements are in or are proposed to be located within the Coastal Barrier Resources System.

Condominium Units

- **A condominium project must be FHA approved before a mortgage on an individual condominium unit can be insured.**
  - Lenox/WesLend accepts FHA HRAP approved projects only.
- An HOA Certification is required to ensure the project is still in compliance with FHA's requirements.
  - The underwriter must complete and sign the Certificate for Individual Unit Financing form.

- Site condominiums are single family detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership and **do not need to be FHA approved**.
- The following are not eligible:
  - Condo projects with any units less than 400 square feet
  - Commercial or business use exceeds the percentage of total square footage of buildings in the project, generally 25%
  - Continuing Care condominiums
  - Co-ops
  - Projects with pending litigation
  - Manufactured Home condominium projects
  - Multi-dwelling unit condominium projects
  - Condotels, Hotel Condos, including:
    - Condo projects that include registration services and offer the rental of units for a term of 30 days or less;
    - Projects that share facilities with a hotel or motel such as maid service, management desk, bellman, etc; and
    - Condo projects that restrict the owner's ability to occupy

Legal Restrictions on Conveyance (Free Assumability)

- Determine if there are any legal restrictions on conveyance.
- A property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA) may be eligible for FHA-insured financing but only when such agreements are **free of restrictions that prevent the borrower from freely transferring the property**.
- Such agreements may be acceptable provided they do not cause a conveyance (ownership transfer) of the property to:
  - Be void, or voidable by a third party;
  - Be the basis of contractual liability of the borrower (including rights of first refusal, pre-emptive rights or options related to a borrower's efforts to convey);
  - Terminate or be subject to termination all or part of the interest held by the borrower;
  - **Be subject to the consent of a third party**;
  - Be subject to limits on the amount of sales proceeds a borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
  - Be grounds for accelerating the mortgage; or
  - Be grounds for increasing the interest rate of mortgage.
- Ensure that any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations.
  - Legal restrictions on conveyance of real property 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 provisions 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 property is subject to impermissible legal restrictions and is generally ineligible for FHA insurance.
  -

Mixed Use of Property

- Refers to a property suitable for a combination of uses including any of the following; commercial, residential, retail, office, or parking spaces.
- Mixed use one-to-four single family properties are eligible for FHA insurance 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 of the residential property.

Property Rights

- Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.
- Leasehold refers to the right to hold or use the property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.
- The ***appraiser must contact the lender*** if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD's requirements.

Property Types

- FHA's single family programs are limited to one-to-four family properties that are owner-occupied principal residences. FHA insures mortgages on real property secured by:
  - Detached or semi-detached dwellings;
  - Townhouses or row houses; and
  - Individual units within FHA-approved condominium projects.
- For two unit properties and three-to-four unit properties obtain a completed form HUD-92561, Borrower's Contract with Respect to Hotel and Transient Use of Property.

Property Valuation

- Obtain an appraisal to verify the value of the property and the property's compliance with HUD's Minimum Property Requirements (MPR).
- Ensure the integrity of the valuation process by ensuring the valuation process is free from conflicts of interest and the appearance of conflicts of interest.
- Any staff or person who is compensated on a commission basis, or who reports to any officer of the company not independent of the mortgage production staff, may not have substantive communications with an appraiser relating to or having an impact on valuation, **including ordering or managing an appraisal assignment**.
- Underwriters who are responsible for the quality of the appraisal report are allowed to request clarifications and discuss with the appraiser components of the appraisal that influence its quality.
- Underwriters may request a clarification or reconsideration of value from the appraiser.
- Non-underwriting staff may not discuss the contents of an appraisal with anyone other than the borrower.

Resales Occurring Between 91 Days and 180 Days After Acquisition

- Obtain a second appraisal by another appraiser if:
  - The resale date of a property is between 91 and 180 days following the acquisition of the property by the seller; and
  - The resale price is 100% or more over the price paid by the seller to acquire the property.
    - If the second appraisal supports a value of the property that is more than 5% lower than the value of the first appraisal, the lower value must be used as the property value.
- Exceptions to time restrictions on resale are:
  - 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 these agencies;
  - Sales of properties by nonprofits approved to purchase HUD owned single family properties at a discount;
  - Sales of properties that are acquired by the seller by 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
  - A builder selling a newly built house or building a house for a borrower planning to use FHA-insured financing.
- The lender must obtain a 12 month chain of title documenting compliance with time restrictions on resales.

Restrictions on Property Flipping

- The eligibility of a property for a mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the property and the date of execution of the sales contract that will result in the FHA-insured mortgage.
  - FHA defines the seller's date of acquisition as the date the seller acquired legal ownership of that property.
  - FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured mortgage.
- A property that is being resold 90 days or fewer following the seller's date of acquisition is not eligible for an FHA-insured mortgage.
  - **FHA does not permit the sales contract to be re-executed to avoid this restriction.**

Sellers

- To be eligible for a mortgage insured by FHA a property must be purchased from the owner of record.
  - Obtain documentation verifying that the seller is the owner of record.
- The transaction may not involve any sale or assignment of the sales contract.
- These requirements apply to all FHA purchase money mortgages regardless of the time between resales.

Special Flood Hazard Areas

- Determine if a property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA).
- Obtain a Life of the Loan Flood Certification from a flood zone determination service, independent of any assessment made by the appraiser.
- If insurance under the National Flood Insurance Program (NFIP) is not available in the community, the property is not eligible for FHA insurance when the property is located within SFHA:
  - Zone A;
  - A Special Flood Zone Area;
  - Zone V;
  - A Coastal Area; or
  - The improvements are, or are proposed to be, located within a Coastal Barrier Resources System (CBRS).
- **For Proposed or New Construction in SFHAs -** 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 for FHA mortgage insurance unless the one of the following is obtained:
  - A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) issued by FEMA that removes the property from the SFHA is obtained; or
  - A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31) prepared by a licensed engineer or surveyor is obtained.
  - The Elevation Certification 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 the NFIP criteria, and insurance under the NFIP is obtained.
- **For Existing Construction in SFHAs -** When any portion of the residential improvements is determined to be located within an SFHA, insurance under the NFIP must be obtained.
- **For Condominiums in SFHAs -** Ensure the Homeowner's Association obtains insurance under the NFIP on buildings located within the SFHA.
  - The flood insurance coverage must protect the interest of the borrower who holds title to an individual unit as well as the common areas of the condo project.
- For properties located within an SFHA flood insurance must be maintained for the life of the loan in an amount at least equal to the lesser of:
  - The outstanding balance of the loan, less estimated land costs; or

- The maximum amount of the NFIP insurance available with respect to the property improvements.

Three-to-Four Unit Properties

- Three and four unit properties must be self-sufficient
  - Net self-sufficient rental income is the rental income produced by the subject property over and above the PITI.
  - For three-to-four unit properties 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 appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market rent.

Insurance

Mortgage Insurance (UFMIP and MIP)

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 1.75% of the Base Loan Amount
Exceptions: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed loan endorsed on or before May 31, 2009 • Hawaiian Home Lands (Section 247) • Indian Lands (Section 248)
Indian Lands (Section 248) do not require a UFMIP

Annual Mortgage Insurance Premium (MIP)
Applies to all loans except: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed loan on or before May 31, 2009 • Hawaiian Home Lands (Section 247)
Hawaiian Home Lands (Section 247) do not require Annual MIP

Mortgage Term of More Than 15 Years			
Base Loan Amount	**LTV**	**MIP**	**Duration**
Less than or equal to $625,500	≤90.00%	80	11 Years
	>90% but ≤ 95%	80	Mortgage Term
	>95%	85	Mortgage Term
Greater than $625,500	≤90%	100	11 Years
	>90% but ≤ 95%	100	Mortgage Term
	>95%	105	Mortgage Term

Mortgage Term of Less Than or Equal to 15 Years			
Base Loan Amount	**LTV**	**MIP**	**Duration**
Less than or equal to $625,500	≤90%	45	11 Years
	>90%	70	Mortgage Term
Greater than $625,500	≤78%	45	11 Years
	>78% but ≤90%	70	11 Years
	>90%	95	Mortgage Term

Streamline Refinance, Simple Refinance

For refinance of previous Mortgage endorsed on or before May 31, 2009 *UFMIP: 0.01% All Mortgages* *All Mortgage Terms*			
Base Loan Amount	***LTV***	***Annual MIP***	***Duration***
All	≤90%	55	11 Years
	>90%	55	Mortgage Term
For mortgages where FHA does not require an appraisal, the value from the previous mortgage is used to calculate the LTV.			

Property Insurance

Hazard Insurance

- Hazard insurance is required for each property.
- The amount of hazard insurance coverage must be the lesser of:
  - 100% of the insurable value of the improvements as established by the property insurer; or
  - The unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements.
- For properties located in California, hazard insurance may not be required in an amount exceeding the replacement value of the **subject property.**
- The maximum deductible may be up to 5% of the amount of the policy.
- The lender must be named as the "Loss Payee" on the policy and sufficient funds must be escrowed for the payment of the renewal premium.

HO-6 Policy (Walls-In)

- HO-6, walls-in, insurance is required for all condominiums if the master insurance policy does not provide coverage of the interior of the unit.

Flood Insurance

- A Flood Hazard Determination is required for all loans.
- Flood insurance is required if the property is located in a Special Flood Hazard Area in zones:
  - A, AE, AH, AO, A1-30, A-99, V, VE, V1-30.
- Flood insurance must be maintained for the life of the loan in an amount at least equal to the lesser of:
  - The outstanding balance of the loan, less estimated land costs; or
  - The maximum amount of the NFIP insurance available with respect to the property improvements.

- The deductible may not exceed a maximum of $5,000 unless a higher maximum is required by state law.
- Flood policies must be NFIP policies and cannot be privately issued.

Appraisal Requirements

Appraisal Orders

Ordering Appraisals

- Lenox/WesLend uses appraisal management companies (AMC) to perform services related to the obtaining of an appraisal.
  - FHA does not establish appraisal fees or due dates.
- The appraiser must be provided with a complete copy of:
  - The case number assignment;
  - The subject sales contract including all addenda;
  - Land leases;
  - Surveys;

- Other legal documents necessary to analyze the property; and
- Disclosure of all known information regarding any environmental hazard that is in or on the subject property or in the vicinity of the property.

Effective Date of the Appraisal

- The effective date of the appraisal cannot be before the FHA case number assignment date unless the underwriter certifies, via the certification field in the Appraisal Logging screen in FHA Connection, that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by an FHA Roster Appraiser.
  - Retain documentation in the file substantiating conversion of the mortgage to FHA.

Communications with Appraisers

- An FHA Roster Appraiser must avoid conflicts of interest and the appearance of conflicts of interest.
  - To avoid conflicts of interest and/or the appearance of conflicts of interest, the appraiser must not be unduly influenced by:
    - A member of a lender's loan production staff or any other person who is compensated based upon the successful completion of a loan; or
    - Anyone who reports ultimately to any Officer of the lender not independent of the loan production staff.
- The appraiser is bound by the confidentiality provisions of USPAP and may not discuss the value or conclusions of the appraisal with anyone other than the Direct Endorsement (DE) underwriter or FHA staff.
  - The appraiser may interact with real estate agents and others during the normal course of business for the purposes of gaining access to the property and obtaining information and other data.
- Ensure that the appraiser's independence is not compromised.
  - It is unacceptable to:
    - Withhold or threaten to withhold timely payment;
    - Condition the ordering of an appraisal or the payment of an appraisal fee on the opinion, conclusion or valuation to be reached;
    - Request the appraiser to provide a pre-determined value estimate;
    - Withhold or threaten to withhold future business from an appraiser;
    - Attempt to impair an appraiser's independence, objectivity, or impartiality.

Electronic Appraisal Delivery Portal

- The EAD portal is a web-based platform where lenders or their designated third-party service providers electronically deliver FHA single family appraisal reports to FHA Connection.
- Ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in the SF Handbook and the Appraisal Report and Data Delivery Guide.
- The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the property securing the FHA-insured mortgage.
- FHA and the lender must be indicated as the intended users of the appraisal report.

Transfers, Second Appraisals, and Updates

Transferring Existing Appraisals

- In cases where a borrower has switched lenders, the first lender must, at the borrower's request, transfer the appraisal to the second lender within five business days.
- The appraiser is not permitted to provide the appraisal to the new lender.
- The client name on the appraisal does not need to reflect the new lender.
- If the original lender has not been reimbursed for the cost of the appraisal, the lender is not required to transfer the appraisal until it is reimbursed.
- **The second lender may not request the appraiser to re-address the appraisal.**
  - If the second lender finds deficiencies in the appraisal, the lender must order a new appraisal.

- Where a lender uses an existing appraisal for a different borrower, the lender must enter the new borrower's information in FHA Connection.
- A second appraisal may only be ordered by the second lender under the following limited circumstances:
    - The first appraisal contains material deficiencies as determined by the underwriter for the second lender;
    - The appraiser performing the first appraisal is prohibited from performing appraisals for the second lender; or
    - The first lender fails to provide a copy of the appraisal to the second lender in a timely manner and the failure would cause a delay in closing.

Second Appraisals

- An additional appraisal may not be ordered to achieve an increase in value for the property and/or elimination or reduction of deficiencies and/or repairs required.
- A second appraisal may be ordered for loans that are subject to the flipping regulation.
- A second appraisal may be ordered if the Direct Endorsement (DE) underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency.
    - Material deficiencies include, but are not limited to:
        - Failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
        - 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
        - Making fraudulent statements or conclusions when the appraiser has reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.
            - ✓ The value of the second appraisal must be used as the appraised value.
            - ✓ The lender must document why a second appraisal was ordered.

Ordering an Update to an Appraisal

- An update may only be ordered if:
    - It is performed by the FHA appraiser who performed the original appraisal;
    - The property has not declined in value.
    - The building improvements that contribute value to the property can be observed from the street or a public way;
    - The exterior inspection of the property reveals no deficiencies or other significant changes;
    - The update of the appraisal was ordered by the lender and completed by the appraiser **prior to the expiration of the initial 120-day period**; and
    - The original appraisal report was not previously updated.

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 must not be held responsible for the additional costs.

- The effective date of the appraisal is the date the appraiser inspected the property.

Underwriting the Property

Lender Review of the Appraisal

D.E. Underwriter's Responsibility

- Review the appraisal and ensure that it is complete, accurate and provides a credible analysis of the marketability and value of the property.
- Underwrite the completed appraisal report to determine if the property provides sufficient collateral for the FHA-insured mortgage.
- Evaluate the appraisal and any supporting documentation to determine if the property complies with HUD's Property Acceptability Criteria.
- Review the appraisal to determine if the subject property was sold within 12 months prior to the case number assignment date.
  - If the subject property was sold within the previous 12 months, review evidence of prior ownership and determine if there are any undisclosed Identity-of-Interest transactions and for compliance with the restrictions on property flipping.
- Ensure the market value of the property is sufficient to adequately secure the FHA-insured mortgage.
- If additional inspections, repairs or certifications are noted by the appraiser or are required to demonstrate compliance with Property Acceptability Criteria, obtain evidence of completion of such inspections, repairs or certifications.
- Existing and New Construction properties must comply with Minimum Property Requirements and Minimum Property Standards.
- Evaluate the appraisal in accordance with Defective Conditions to determine if the property is eligible for an FHA-insured mortgage.
  - If defective conditions exist and correction is not feasible, the property must be rejected.
- **Lenders bear primary responsibility for determining eligibility and the sufficiency of collateral.**

Minimum Property Requirements and Minimum Property Standards

- As the on-site representative for the lender the appraiser provides preliminary verification that a property meets the Property Acceptability Criteria which includes HUD's:
  - Minimum Property Requirements (MPR); and
  - Minimum Property Standards (MPS).
    - Minimum Property Requirements refer to general requirements that all homes insured by FHA must be safe, sound and secure.
    - Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of New Construction.
- Minimum Property Requirements and Minimum Property Standards apply to residential properties containing:
  - One-to-four family housing units;
  - Individual condominium units;
  - Related property improvements and the sites on which they are located;
  - The immediate environment for the dwelling, including streets, other services, and facilities associated with the site.

Application of Minimum Property Requirements and Minimum Property Standards

Existing Construction

- Existing Construction refers to a property that has been 100% complete for over one year or has been completed for less than one year and previously occupied.
- For Existing Construction, **the appraiser must notify the lender of the deficiencies when the property does not comply with FHA's MPR.**

New Construction

- New Construction refers to Proposed Construction, properties Under Construction, and properties Existing Less than One Year, not previously occupied.
- 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 when a Certificate of Occupancy (CO) or equivalent has not yet been issued.
- Existing Less than One Year refers to a property that is 100% complete, was completed less than one year from the date of the issuance of the Certificate of Occupancy, and has never been occupied.
- For New Construction, **the appraiser must notify the lender of the deficiencies when the property does not comply with FHA's MPR and MPS.**

- When examination of a property reveals non-compliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply together with an estimated cost to cure.
  - Determine which repairs must be made for an existing property to be eligible for FHA financing.
  - Require corrective work to mitigate potential adverse effects from any on-site hazards or nuisances reported by the appraiser.
    - If the appraiser cannot determine that a property meets HUD's MPR or MPS, in order to make the determination, obtain an inspection from a qualified individual.
  - Use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS.

Abandoned Gas and Oil Wells

- If the property contains any abandoned gas or oil wells, obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.
- If the property contains any abandoned petroleum product wells ensure that:
  - A qualified petroleum engineer has inspected the property and the risk; and
  - That the appropriate state authorities have concurred on clearance recommendations.

Access to the Property

- Confirm that the property is provided with safe pedestrian access and adequate vehicular access from a public or private street.
  - Streets must either be dedicated to public use and maintenance; or
  - Retained as private streets.
  - Private streets, including shared driveways, must be protected by permanent recorded easements, ownership interest, or be owned and maintained by an HOA.
    - Shared driveways do not require a joint maintenance agreement.

Encroachment

- Ensure the subject's dwelling, garage or other improvements do not encroach onto an adjacent property, right-of-way, utility easement, or building restriction line.
- Ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject property.
  - Encroachment by the subject or adjacent property fences is acceptable provided such encroachment does not affect the marketability of the subject property.

Environmental

- 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 occupants, the property's ability to serve as collateral, and the structural soundness of the improvements.

Lead Based Paint

- Confirm that the property is free of lead paint hazards.

Leased Equipment

- Ensure that the property value does not include the value of any equipment, including an energy system, not fully owned by the borrower.
    - Review the terms of the lease on any equipment to ensure they do not contain any legal restrictions on conveyance.

Methamphetamine Contamination

- If the sales contract, disclosures, or the appraiser identifies a property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption**, the property is ineligible until the property is certified safe for habitation.**

Overhead Electric Power

- Confirm that any overhead electric power transmission lines do not pass directly over any dwelling, structure, related property improvement or swimming pools.
    - If power lines do pass directly over any of the above, **the power line must be relocated in order for a property to be eligible for FHA financing**.
- The residential service drop line may not pass directly over any pool, spa, or water feature.
- If the dwelling or related property improvements are located within the easement area:
    - Obtain a certification 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.

Requirements for Living Units

- FHA does not have a minimum size requirement for one-to-four family dwellings and condominium unit
- Confirm that each living unit contains:
    - 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 unit must include, at a minimum a sink, a toilet, 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 operation of the mechanical equipment.
- Ensure that cabinets and built-in appliances that are considered real property are present and operational.
    - Ensure that appliances that are to remain and that contribute to the market value opinion are operational.

Sewage System

- 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 on-site sewage disposal systems are acceptable provided they are functioning properly and meet the requirements of the local health department.
- When the on-site sewage disposal system is not sufficient and an off-site system is available, confirm connection to an off-site sewage system.
- When the on-site sewage disposal system is not sufficient and an off-site system is not available, the **property must be rejected** unless:
    - The on-site sewage disposal system is repaired or replaced and complies with local health department standards.

Structural Conditions

- Confirm that the structure of the property will be serviceable for the life of the mortgage.
- Confirm that all foundations will be serviceable for the life of the mortgage and adequate to withstand all normal loads imposed.

Swimming Pools

- Confirm that any swimming pools comply with all local ordinances.

Termites

- For existing properties confirm that the property is free of wood destroying insects and organisms.
  - If the appraisal is made subject to inspection by a qualified pest control specialist obtain such inspection and evidence of any required treatment to confirm that the property is free of wood destroying insects and organisms.

Utility Services

- If utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body, confirm that this information is recorded on the deed of record.

Water Supply Systems

- **Individual Water Supply (Wells)** – When an individual water supply system is present, ensure that the water quality meets the requirements of the local health authority.
  - If there are no local or state water quality standards, then the water quality must meet the standards set by the EPA as presented in the National Primary Drinking Water regulations.
- Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance is obtained that the treatment will not endanger the quality of the water supply.
- **Shared Wells -** 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 involved dwelling units so that each existing property simultaneously will be assured of at least three gallons per minute (five gallons per minute for New 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 during a continuous four hour period.
    - The shared well system yield must be demonstrated by a certified pumping test or other means.
  - Provides safe and potable water.
    - An inspection is required under the same circumstances as an individual well.
  - Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting the service to the other properties; and
  - Serves no more than four living units or properties.
- Ensure that the shared well agreement complies with the FHA requirements

Individual Water Supply System 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 if allowed by local authority.
5	If the subject property line is adjacent to residential property then local well distance requirements prevail. If the subject property is adjacent to a non-residential property or roadway, a separation distance of at least 10 feet from the property line is required.
*Distance requirements of the local authority prevail if greater than stated above	

Individual Water Well Minimum Property Standards for New Construction	
1	Must have lead-free piping.
2	If there are no local chemical and bacteriological water standards, state standards apply.
3	Connection to public water is required whenever feasible.
4	Wells must deliver water flow of five gallons per minute over at least a four hour period.

Individual Water Well Minimum Property Requirements for Existing Construction	
1	Existing wells must deliver water flow of three to five gallons per minute.
2	Exposure to environmental contamination is not allowed.
3	Must have a continuing supply of safe and potable water.
4	Must supply domestic hot water.
5	Water quality must meet the requirements of the local jurisdiction or the EPA if there are no local standards.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any mortgagee holding a mortgage on any property connected to the shared well.
2	Permit well water sampling and testing by the local authority at 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 any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: • The consent of all parties; • The appropriate amendment of the agreement; and • Compliance with item 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 easements 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 pre-existing 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	Establish the right of any party to act to correct an emergency in the absence of the other on-site parties. An emergency may be defined as failure of any shared portion of the system to deliver water upon demand.
12	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 party.
13	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.

14	Require that any necessary replacement or improvement of a system's element(s) will restore original system performance.
15	Specify required cost sharing for: • 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.
16	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.
17	Require that each party be responsible for: • Prompt repair of any detected leak in the water service line or plumbing system; • Repair costs to correct system damage caused by a resident or their guest at their property; and • Necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a property sharing the well.
19	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.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured 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.

Conditional Commitment/Statement of Appraised Value

- The Conditional Commitment Direct Endorsement Statement of Appraised Value, Form HUD -92800.5B, provides the terms upon which the commitment/direct endorsement statement of appraised value is made and the specific conditions that must be met before HUD can endorse a Firm Commitment for mortgage insurance.
  - The underwriter must complete Form HUD-92800.5B as directed in the form instructions.
  - Where a Statement of Appraised value is required, the lender must provide the borrower with a copy of the completed form HUD-92800.5B.

Appraising the Property

Commencement of the Appraisal

The appraiser must obtain all of the following from the lender before beginning an appraisal:

- The FHA case number;
- A complete copy of the executed sales contract for the subject, if the transaction is a purchase;
- The land lease, if applicable;
- Surveys or legal descriptions, if available;
- Any other legal documents contained in the loan file; and
- A point of contact and contact information for the lender so that the appraiser can communicate any non-compliance issues.
- If the subject property is new construction, the appraiser must obtain from the lender:

- A fully executed Form HUD-92541, Builder's Certification of Plans, Specifications, 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 that will assist the appraiser in determining what will be built when finished.

General Appraisal Requirements

- The effective date of the appraisal cannot be before the FHA case number assignment date unless the lender certifies that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed pursuant to FHA guidelines.
  - The appraisal must be in full compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), which requires that it be classified as a new assignment.
  - The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the property securing the FHA-insured mortgage.
  - FHA and the lender must be indicated as the intended users of the appraisal report.
    - If the appraiser determines that the scope of work is met with regard to MPR, MPS, and USPAP compliance and further determines that a re-inspection of the property is not necessary, the effective date of the appraisal may be the date of the original inspections.
    - If an FHA-compliant inspection is required, the date of the inspection will become the effective date of the new appraisal.
- The appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of property used as the security for an FHA-insured mortgage.
- The appraiser must observe, analyze and report that the property meets HUD's MPR and MPS.
- Every property must be safe, sound and secure. So that the lender can determine eligibility, the appraiser must:
  - Note where the property is not safe, sound, and secure; and
  - Note when the property does not comply with FHA's MPR and MPS.
- The appraiser must complete the Fannie Mae Form 1004MC, Market Conditions Addendum to the Appraisal Report for every appraisal.
- Other forms to be used in the completion of an FHA appraisal are listed in the table below.

Property/Assignment Date	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR)
Single Unit Condominium	Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report
Small Residential Income Properties (Two-to-Four Units)	Fannie Mae Form 1025, Small Residential Income Property Appraisal Report
Update of Appraisal (All Property Types)	Summary Appraisal Update Report Section of Fannie Mae Form 1004D, Appraisal Update and/or Completion Report
Compliance or Final Inspection for New Construction	Form HUD-92051, Compliance Inspection Report,
Compliance or Final Inspection for Existing Property	Certification of Completion Section of Fannie Mae Form 1004D, Appraisal Update and/or Completion Report

Determination of Defective Construction

- The appraiser must observe, analyze and report defective conditions and provide photographic documentation of those conditions in the appraisal report.
- MPR and MPS form the basis for identifying the deficiencies of the property that the appraiser must note within the appraisal report.
- The appraiser must identify readily observable defective conditions.
- Defective Conditions refer to:
  - Defective construction;
  - Evidence of continuing settlement;

  - Excessive dampness;
  - Leakage;
  - Decay;
  - Termites;
  - Environmental hazards; or
  - Other conditions affecting the health and safety of the occupants, collateral security, or structural soundness of the dwelling.
- The appraiser must identify defective conditions that are curable and will make the property comply with HUD's MPR and provide an estimated cost to cure.
- If the appraiser cannot determine that a property Meets MPR or MPS an inspection by a qualified individual may be required.
- Conditions that require an inspection by qualified professionals 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 such as electrical, plumbing, or heating/cooling.
  - Evidence of possible structural failure such as settlement, bulging foundation walls, unsupported floor joists, cracked masonry walls, or cracked foundations.
  - Evidence of possible pest infestation;
  - Leaking or worn out roofs; or
  - Any other condition that, in the professional judgment of the appraiser, warrants inspection.
- Appraisers may not recommend inspections only as a means of limiting their liability.
  - The reason or indication of a particular problem must be given when requiring an inspection.

Legal and Land Use Considerations

Easements and Deed Restrictions

- 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 the land for a specific limited purpose.
- A deed restriction refers to a private agreement that restricts the use of real estate in some way and is listed in the deed.
- The appraiser must note the presence of any easements and deed restrictions to assist the lender in determining eligibility.
- The appraiser must analyze and report the effect the easements and/or deed restrictions have on the use, value and marketability of the property.
- The appraiser must review recorded subdivision plats when available through the normal course of business.

Encroachments

- An encroachment refers to an interference with or intrusion onto another's property.
- The appraiser must report the presence of any encroachments so that the lender can determine eligibility.
- The appraiser must identify any encroachments of the subject's dwelling, garage, or other improvement onto an adjacent property, right-of-way, utility easement or building restriction line.
- The appraiser must also identify any encroachments of a neighboring dwelling, garage, other physical structure or improvements onto the subject property.
  - The **appraiser must notify the lender** if, upon observation, it appears that an encroachment affects the subject property.

Non-Residential Use of the Property

- The non-residential portion of the total floor area may not exceed 49%.
- Any non-residential use of the property must be subordinate to its residential use, character and appearance.
- Non-residential use may not impair the residential character or marketability of the property.
- The non-residential use of the property must be legally permitted and conform to zoning requirements.

- 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 usage is legal and in compliance with current zoning requirements.
- The appraiser must contact the lender if the non-residential portion of the property exceeds 49%.

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.

Zoning

- FHA requires the property to comply with all applicable zoning ordinances.
- The appraiser must determine if current use complies with zoning ordinances.
  - If the existing 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
  - State whether the property may be legally rebuilt if destroyed.

Externalities

Off-Site Conditions

- 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 lines;
  - 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 so that the lender can determine eligibility. The appraiser must:
  - Consider how externalities affect the marketability and value of the property;
  - Report the issue and the market's reaction; and
  - Address any positive or negative effects on the value of the subject property.

- **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 property because of the excess noise and safety issues.

- **Airport Noise and Hazards -** The appraiser must identify if the property is affected by noise and hazards of low flying aircraft because it is near an airport.
  - The appraiser must review airport contour maps and analyze accordingly.
  - The appraiser must determine and report the marketability of the property based on the analysis.
- The appraiser must identify if the property is located within:
  - A Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport; or a Clear Zone at a military airfield; and
  - Consider the effect of the airport hazards on the marketability when valuing the subject property.

- For properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, the appraiser must require compliance with the Department of Defense (DoD) guidelines; and
- A buyers acknowledgement:
  - For existing properties, the appraiser must condition the appraisal on the borrower's acknowledgment of the hazard.
  - For Proposed/Under Construction the appraiser must note that the property is **ineligible** for FHA insurance and **notify the lender**.

- **Proximity to High Pressure Gas Lines**
  - The appraiser must identify if the dwelling or related property improvements, either aboveground or subsurface, are near:
    - High-pressure gas lines;
    - Liquid petroleum pipelines; or
    - Other volatile and explosive products.
  - The appraiser must determine and report the marketability of the property.
  - **The appraiser must notify the lender of the deficiency of MPR or MPS** if the property is not located **more than 10 feet** from the nearest boundary of the pipeline easement.

- **Overhead Electric Power Transmission and Local Distribution Lines**
  - Overhead electric power transmission lines refer to electric lines that supply power from power 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.
  - **The appraiser must notify the lender of the deficiency of MPR or MPS** if the overhead electric power transmission lines or the local distribution lines pass directly over any dwelling, structure, related property improvements, pools, spas, or water features.
  - **The appraiser must notify the lender of the deficiency of MPR or MPS** if the dwelling or related property improvements are located within an easement or if they appear to be located within an unsafe distance of any power line or tower.
  - The appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances.
  - The appraiser must also determine if the guidelines for Encroachments apply.

Smoke, Fumes and Offensive or Noxious Odors

- The appraiser must notify the lender of the presence of any of the following that may threaten the health and safety of the occupants or the marketability of the property:
  - Excessive smoke;
  - Chemical fumes;
  - Noxious odors;
  - Stagnant ponds or marshes;
  - Poor surface drainage; or
  - Excessive dampness.

Stationary Storage Tanks

- If the subject property is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material, **then the property is ineligible for FHA insurance**, and **the appraiser must notify the lender of the deficiency of MPR or MPS.**
  - This includes domestic and commercial uses as well as automotive service stations.

Site Conditions

Access to the Property

- Adequate vehicular access to the property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.
- The appraiser must note whether there is safe pedestrian access and adequate vehicular access to the site and analyze any effect on value and marketability.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the property does not have:
  - Safe pedestrian access; and adequate vehicular access from:
    - A public street; or
    - A 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.
  - The appraiser must report evidence of a permanent easement.
  - The appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

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 the presence of all on-site hazards and nuisances so that the lender can determine the eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.
  - The appraiser must provide photographs of potential problems or issues
  - to assist the lender in understanding the problem.
- On-site hazards and nuisances include:
  - Rock formations;
  - Unstable soils or slopes;
  - High ground water levels;
  - Springs; and
  - Any other conditions that may have a negative effect on the value.

Topography

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.
- The appraiser must make the appraisal subject to an inspection of the foundation by a qualified individual if the purchase contract or any other documentation indicates dampness, or if the appraiser observes dampness.
- The appraiser must report to the lender any danger due to topographic conditions such as:
  - Earth and mudslides from adjoining properties; and
  - Falling rocks and avalanches.

Grading and Drainage

- The appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include:
  - Gutters and downspouts; or
  - Appropriate grading or landscaping to divert the flow of water away from the foundation.
- The appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements.
- The appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage.

Soil Suitability

- 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 formations 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 and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

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.
- Danger of land 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;
  - Extraction of subsurface minerals; or
  - Where the subsoil or subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, and sinkholes or settlement problems.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if there is probable or imminent danger of land subsidence so that the lender can determine eligibility.
- The appraiser must analyze and report any readily observable condition of the surface of the land that may indicate potential problems from subsidence or the potential for lack of support for the surface of the land or building foundation.
- In mining areas the appraiser must analyze and report the depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable, or negligible.

Oil or Gas Wells

- The appraiser must examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling.
- The **appraiser must notify the lender of the deficiency of MPR or MPS** if the dwelling is 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 appraiser notes an abandoned gas or oil well on the subject site or **an adjacent property the appraiser must stop work and notify the lender.**
- The appraiser may resume work when the lender provides a letter from the local jurisdiction or the appropriate state agency stating that the subject well was permanently abandoned in a safe manner.

Hydrogen Sulfide

- The appraiser may complete the appraisal on a property located near a gas well that emits hydrogen sulfide if:
  - The minimum clearance has been established by a petroleum engineer.
  - The lender must require an inspection by a qualified person and provide evidence that the minimum clearance has been established.
- The appraiser must assess any impact that the location of the well has on the value and marketability of the property.

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 appraiser must make the appraisal subject to the removal of all unstable and toxic material and the site made safe.

Special Flood Hazard Areas

- The appraiser must review the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations in the appraisal report.
- If the property appears to be located within a Special Flood Hazard Area (SFHA), the appraiser must attach a copy of the flood map panel to the appraisal report.
- The appraiser must enter the FEMA zone designation on the appraisal report and identify the map panel number and map date.
- If the property is not shown on any map the appraiser must enter “not mapped”.
- The appraiser must quantify the effect on value, if any, for properties located within a designated SFHA.

Coastal Barrier Resources System

- The appraiser must review the FEMA FIRM to determine if the property is located within a Coastal Barrier Resources System (CBRS).
  - The appraiser must review CBRS location maps to confirm.
- **The appraiser must stop work and notify the lender of the deficiency of MPR or MPS** if the property is located within a CBRS designated area.

Lava Zones

- When a property is located in Hawaii the appraiser must review the U.S. Geological Survey (USGS) Lava Flow Hazard Zone Maps.
- The **appraiser must notify the lender of the deficiency of MPR or MPS** if the property is located in Zones 1 or 2.
- The appraiser is to report in the “Comments” section that the property is in the lava flow hazard zone and provide the zone number.

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 infringement on the property rights of the fee owner caused by the rights granted by the reservations or lease; and
  - The hazards, nuisances, or damages that may arise or accrue to the subject property from the exercise of the reservation or lease privileges on neighboring properties.

Soil Contamination

- Soil contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.
- Conditions that indicate soil contamination include:
  - The existence of underground storage tanks used for heating oil;
  - Pools of liquid;
  - Pits, ponds, and lagoons
  - Stressed vegetation;
  - Stained soils or pavement; and
  - Drums or odors.
- The appraiser must check for readily observable evidence of soil contamination and hazardous substances in the soil.

- The appraiser must report the proximity to the property of any site that may have a negative influence on the marketability and/or value of the subject property such as:
  - Dumps and landfills;
  - Industrial sites; or
  - Other sites that could contain hazardous wastes.

Residential Underground Storage Tanks

- The appraiser must note any readily observable evidence of residential underground storage tanks such as full pipes, pumps, or ventilation caps.
- If there is a readily observable evidence of leakage or onsite contamination the appraiser must make a requirement for further inspection.

New Construction Site Analysis

- The appraiser must obtain a fully completed 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 before performing the appraisal on Proposed, Under Construction or New Construction properties.
  - The appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the appraiser's actual on-site observations.

Excess and Surplus Land

- **Excess land** refers to land that is not needed to serve or support the existing improvements.
  - 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.
  - The appraiser must include the highest and best use analysis in the appraisal report to support the appraiser's conclusion of the existence of excess land.
  - If the subject property contains two or more legally conforming platted lots under one legal description and ownership, and the second lot is capable of being divided and/or developed as a separate parcel, the second vacant lot is excess land.
    - The value of the second lot must be excluded from the final value conclusion of the appraisal.
    - The appraiser must provide a value for only the principal site and improvements.
- **Surplus land** refers to land that is not currently needed to support the existing improvements 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 parcel.
  - The appraiser must include surplus land in the valuation.

Characteristics of Property Improvements

Requirements for Living Units

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if each living unit does not contain any one 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 unit must have at least one bathroom which must include at a minimum a sink, a toilet, 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 the operation of mechanical equipment used in the living unit.

Access to Living Unit

- **The appraiser must notify the lender of the deficiency of MPR or MPS** 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.
- For attached dwellings the access may be by means of an alley, an easement, common areas, or passage through the dwelling
- The appraiser must report when the property has security bars on bedroom windows or doors.

Modular Houses

- Modular housing refers to structures constructed off-site in a factory, transported to a building lot and assembled by a contractor into a finished house.
- All of the materials are identical to what is found in comparable conventional stick built housing.
- The appraiser must treat modular housing the same as stick built housing including reporting the appraisal on the same form.
- The appraiser must select and analyze appropriate comparable sales which may include conventionally built housing, modular housing, or manufactured housing.

Accessory Dwellings

- An Accessory dwelling unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit single family dwelling.
  - It is a separate additional living unit which may include the following facilities; living unit, kitchen, bedroom, and bathroom.
- 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 family dwelling.
  - The conclusion of the highest and best use analysis will then determine the classification of the property and the type of appraisal that is required.
- An ADU is usually subordinate in size, location and appearance to the primary dwelling and may or may not have separately metered utilities or separate means of ingress and egress.
- The appraiser must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if more than one ADU is located on the subject property.

Additional Manufactured Home on the Property

- Properties with manufactured homes are not eligible.

Leased Equipment

- The appraiser must not include the value of leased mechanical systems and components in the market value of the subject property. This includes:
  - Furnaces;
  - Water heaters;
  - Fuel or propane storage tanks;
  - Solar or wind systems; and
  - Other mechanical systems and components not owned by the borrower.

Gross Living Area

- Gross living area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the structure.
  - It includes only finished, habitable, above-grade living space.
- The appraiser must:
  - Identify non-contiguous living area and analyze its effect on functional utility;
  - Ensure that finished basements and unfinished attic areas are not included in the total GLA; and
  - Use the same measurement techniques for the subject and 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 the space on a different line in the appraisal report grid unless:
    - The market considers it to be partially below grade habitable space.
    - In the case of non-standard properties and floor plans the appraiser must observe, analyze and report the market expectations and reactions to the unique property.

Additions and Converted Space

- The appraiser must treat room additions and garage conversions as part of the GLA of the dwelling provided that the addition or conversion space:
    - 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.
- Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA.
    - The appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as on the contributory value, if any.
- The appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space.
    - If the appraiser chooses to include converted living spaces as GLA, the appraiser must include:
        - An explanation detailing the composition of the GLA reported for the comparable sales;
        - The functional utility of the subject and comparable properties; and
        - Market reaction.
- The appraiser must not add an ADU or secondary living area to the GLA.

Partially Below Grade Habitable Space

- Partially below grade habitable space refers to living area constructed partially below grade but has the full utility of the GLA.
- The appraiser must report:
    - The design and measurements of the subject;
    - 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.
- 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.
    - The appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency regardless of location above or below grade.

Real and Personal Property

- 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 automobiles, recreational vehicles, stamps, coins, or other collectibles.
- Cabinets and built in appliances that are considered real property must be present and operational.

Appliances

- The appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered personal property or real property.
- The appraiser must operate all conveyed appliances and observe their performance.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if any conveyed appliances are inoperable.

Swimming Pools

- The appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable.
- If the pool water contains algae and is aesthetically unappealing, but the appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required.
- Swimming pools must be operational to provide full contributory value.
- The appraiser must condition the appraisal report for pools with unstable sides or structural issues to be:
    - Repaired or permanently filled in; and
    - The surrounding land regraded if necessary.
- If the swimming pool has been winterized, or the appraiser cannot determine if the pool is in working order, the appraiser must complete the appraisal with the extraordinary assumption that the pool and equipment can be restored to full operating condition at normal costs.

Mechanical Components and Utilities

- The appraiser must notify the lender of the deficiency of MPR or MPS if:
    - The mechanical systems are not safe to operate;
    - Are not protected from destructive elements;
    - Do not have reasonable future utility, durability and economy; or
    - Do not have adequate capacity.
- The appraiser must observe the physical condition of the plumbing, heating and electrical systems.
    - The appraiser must operate the applicable systems and observe their performance.
    - If the systems are damaged or do not function properly, the appraiser must condition the appraisal on its repair or further inspection.
- If the property is vacant the appraiser must note in the report whether the utilities were on or off at the time of the appraisal.
- If the utilities are not on at the time of observance and the systems could not be operated, the appraiser must:
    - Render the appraisal as subject to re-inspection;
    - Condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
    - Complete the appraisal under the extraordinary assumption that utilities and mechanical systems and appliances are in working order.
    - The appraiser must note that the re-inspection may result in additional repair requirements once all utilities are on and fully functional.
- If systems could not be operated due to weather conditions, the appraiser must clearly note this in the appraisal report.
    - The appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.
    - Electrical, plumbing, or heating/cooling certifications may be required when the appraiser cannot determine if one or all of these systems are working properly.

Heating and Cooling Systems

- The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions regardless of design, fuel or heat source.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the permanently installed heating system does not:
    - Automatically heat the living area of the house to a minimum of 50 degrees Fahrenheit in all GLAs as well as 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
- 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.

Electrical System

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.
- The appraiser must examine the electrical system to ensure that:
  - There is no visible frayed wiring or exposed wires in the dwelling including garage and basement areas;
  - Report if the amperage and panel size appears 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.
    - The appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical devise or control.

Plumbing System

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the plumbing system does not function to supply water pressure, flow and waste removal.
- The appraiser must:
  - Flush the toilets and operate a sample of faucets to check water pressure and flow;
  - Determine that the system is intact;
  - That it does not emit foul odors;
  - That faucets function appropriately;
  - That both cold and hot water run; and
  - That there is no readily observable evidence of leaks or structural damage under the fixtures.
- The appraiser must 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.
- If the property has a septic system:
  - The appraiser must examine it for any signs of failure or surface evidence of malfunction.
  - If there are deficiencies the appraiser must require repair or further inspection.

Roof Covering

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the roof covering does not prevent the 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 years.
  - The appraiser must report if the roof has less than two years of remaining life and make the appraisal subject to inspection by a professional roofer.
- The appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility.
  - The appraiser must identify the roofing material type and the condition observed.
- 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.

Structural Conditions

Structural Issues

- The appraiser must report on structural conditions so that the lender can determine if the foundation and structure of the property will be serviceable for the life of the mortgage.
- 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 in the appraisal under “Adverse Conditions” and require inspection by a professional.

Defective Paint

- If the dwelling or related improvements were built after December 31, 1978, the appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.
  - Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant structures.

Attic Observation Requirements

- The appraiser must observe the interiors of all attic spaces.
- The appraiser is not required to disturb insulation or move personal items such as furniture or debris that obstructs access or visibility.
- If the appraiser is unable to view the area safely in its entirety, the appraiser must contact the lender and reschedule a time when a complete visual observation can be performed or complete the appraisal subject to inspection.
- In cases where access through a scuttle is limited and the appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the appraiser will suffice.
- If there is evidence of a deficient condition the appraiser must report the condition and render the appraisal subject to inspection and repairs. Deficient conditions include, but are not limited to:
  - Water stained ceilings;
  - Insufficient ventilation; or
  - Smell of mold.
- If there is no access or scuttle, the appraiser must report the lack of accessibility to the area in the appraisal report.
  - There is no requirement to cut open walls, ceilings, or floors.
- An observation performed in accordance with these guidelines is visual and is not technically exhaustive.

Foundation

- The appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair.
- If a deficiency is noted the appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal report.

Basement

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the basement is not free of:
  - Dampness;
  - Wetness; or
  - Obvious structural problems that might affect the health and safety or soundness of the structure.

Sump Pump

- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the sump pump is not properly functioning at the time of the appraisal.

Crawl Space

- The appraiser must visually observe all areas of the crawl space and **notify the lender of the deficiency of MPR and MPS** when the crawl space does not satisfy any of the following criteria:
  - The floor joists must be sufficiently above ground level to provide for access for maintaining and repairing ductwork 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.
  - The crawl space must not be excessively damp and must not have any water pooling.

        - If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.
- The appraiser must report any evidence that may indicate issues with the soundness and security of the property such as dampness, damage, or vermin.
- In cases where access through a scuttle is limited and the appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the appraiser will suffice.
    - If there is no access 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 no access to the crawl space but there is evidence of a deficient condition, such as water-stained subflooring or smell of mold, the appraiser must report this condition and the lender must have a qualified third party perform an inspection.

Environmental and Safety Hazards

Appraiser Reporting Requirement

- 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;
    - Any other pollution;
    - Hazardous activities; and
    - Other potential damage to the structure from:
        - Soil or other differential ground movements;
        - Subsidence;
        - Floods; and
        - Other hazards.

Lead Based Paint

- For properties built prior to December 31, 1978 the appraiser must note the condition and location of all defective paint and require repair.
    - The appraiser must observe all interior and exterior surfaces for defective paint including common areas, stairs, decks, porches, railings and windows/doors.
    - Defective paint is paint that is cracking, scaling, chipping, peeling or loose
    - Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and any other outbuildings and appurtenant structures.
- For condominium units built prior to December 31, 1978 the appraiser must:
    - observe the interior of the unit and exterior surfaces and appurtenant structures of the specific unit being appraised; and
    - Address the overall condition, maintenance and appearance of the condominium project.
    - The appraiser must note the condition and location of all defective paint in the unit, common area, and exterior and require repair.

Methamphetamine Contamination

- If the lender notifies the appraiser or the appraiser has evidence that a property is contaminated by the presence of methamphetamine (meth), either by its manufacturing or by consumption, the appraiser must **render the appraisal subject to the property being certified for safe habitation.**
- If the effective date of the appraisal is prior to certification that the property, site and dwelling is safe for habitation, the appraiser will complete the report subject to certification that the property is safe.
- If the effective date of the appraisal is after certification, and the lender has provided a copy of the certification by a certified hygienist, the appraiser must include a copy of the certification in the appraisal report.

- The appraiser must analyze and report any long-term stigma caused by the property's contamination by meth and the impact on value or marketability.

Wood Destroying Insects/Organisms/Termites

- The appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests.
  - The appraiser's observation is not required to be at the same level as a qualified pest control specialist.
- If there is evidence or notification of infestation, including a prior treatment, the appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal report and make the appraisal subject to inspection by a qualified pest control specialist.

Repair Requirements

Non-Compliance with MPR and MPS

- 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 the required repairs.
- If compliance can only be effected by major repairs or alterations the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered while performing the research involved in the completion of the appraisal report.
- **Regardless of the appraiser's suggested repairs, the lender will determine which repairs are required.**

Limited Required Repairs

- The appraiser must limit required repairs to those repairs necessary to:
  - 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

- The appraiser may complete an "as-is" appraisal for existing properties when minor property deficiencies, which generally 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 handrails that do not pose a threat to safety;
  - Holes in window screens;
  - Cracked window glass;
  - Defective interior paint surfaces in housing constructed after December 31, 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 due to age.

Defective Conditions Requiring Repair

- The **appraiser must notify the lender** and make the appraisal subject to an inspection by a qualified individual 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.

Utility Services

Required Analysis and Reporting

- Utility services are those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.
- **The appraiser must notify the lender of the deficiency of MPR or MPS** if the subject property is an attached or detached single family dwelling and the utilities are not independent for each living unit. This does not apply to ADUs.
- **The appraiser must also notify the lender of the deficiency of MPR or MPS** if utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body.

Multiple Living Units Under Single Ownership

- The appraiser should not note a deficiency of MPR or MPS if the property contains multiple living units, such as two-to-four family properties, that utilize common services such as water, sewer, gas, electricity, and is served by one meter in jurisdictions that allow single meter properties unless separate utility shut-offs are not provided for each.
- The appraiser must notify the lender of the deficiency of MPR or MPS 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 unit buildings.

Living Units Under Separate Ownership

- The appraiser should not note the deficiency of MPR or MPS if the property contains living units under separate ownership that are 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 maintenance agreement, unless:
  - 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.
- If a single drain line in the building serves more than one unit, and the building drain clean-outs are not accessible from the exterior, the appraiser must note the deficiency of MPR or MPS to the lender.

Individual Water Supply Systems

- An individual water supply system refers to a potable water source providing water to an individual property.
- The appraiser must report on the availability of connection to a public and/or a community water system and any jurisdictional conditions requiring connection.
- When an individual water supply system is present, water quality must meet the requirements of the health authority with jurisdiction.
  - If there are no local or state water quality standards, then the water must comply with the current EPA Manual of Individual and Non-Public Water Supply Systems.
- When the appraiser obtains evidence that any of the water quality requirements are not met, the appraiser must notify the lender and provide a cost to cure.
- **The appraiser must 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;
  - There is no evidence that it is common for the area; and
  - It adversely affects marketability unless the well is located within the foundation walls of a New Construction dwelling in an arctic or sub-arctic region.
- The appraiser must 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.

- A pressure tank with a minimum capacity of 42 gallons must be provided.
- Pre-pressured tanks and other pressurizing devises are acceptable if delivery between pump cycles equal or exceed 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.
- The appraiser must report whether such systems are readily accepted by local market participants; and
- That the water supply may violate MPR or MPS.

- The appraiser must note any readily observable deficiencies regarding the well and require a test or inspection if any of the following apply:
  - The water supply relies upon a water purification system due to the presence of contaminates;
  - Corrosion of pipes/plumbing;
  - An unusually objectionable taste, smell or appearance of the water;
  - If the subject property is located within one quarter mile of any of the following:
    - Areas of intensive agricultural use;
    - Coal mining or gas drilling operations;
    - A dump, landfill, or junkyard; or
    - A factory, gas station , or dry cleaning operation.
- **The appraiser must 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 and sand-point or artesian wells.
- The appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution and, if discernible, comment on them.
- The appraiser is not required to sketch or note distances between the well and property lines, septic tanks, drain fields, or building structures.
  - The appraiser may provide estimated distances when they are comfortable doing so.
  - When available the appraiser should obtain from the homeowner or lender a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

Shared Wells

- A shared well refers to a well that services two to four homes where there is a binding shared well agreement between the property owners.
- If the property has a shared well the appraiser must report it and note any readily observable deficiencies.
  - The appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that the lender may review the agreement to determine eligibility.
  - The appraiser must also require an inspection under the same circumstances as an individual well.

Community Water Systems

- A community water system refers to a central system that is owned, operated and maintained by a private corporation or a non-profit property owners' association.
- If a property is on a community water system the appraiser must note the name of the water company in the appraisal report.

Individual Residential Water Purification System

- If a property is served by an individual residential water purification system, the appraiser must indicate what type of system is installed on the property, either point-of-entry or point-of-use.
- The appraiser must report on the conditions requiring connection of the individual residential water purification system.

On-Site Sewage Disposal System (Septic Tanks)

- An on-site sewage disposal system refers to wastewater systems designed to treat and dispose of effluent on the same property that produces the wastewater.
- **The appraiser must note the deficiency of MPR or MPS** and notify the lender if the property:
  - Is not served by an off-site sewer system;
  - Is not provided with an on-site sewage disposal system adequate to dispose of all domestic wastes in a manner that will not create a nuisance or in any way endanger the public health.
- The appraiser must visually inspect the on-site sewage disposal system and its surrounding area.
- If there are any readily observable signs of system failure, the appraiser must require an inspection to ensure that the system is in proper working order.
- The appraiser must report on the availability of public sewer to the site.

Valuation and Reporting Protocols

Intended Use and Intended Users of the Appraisal

- The intended use of the appraisal is solely to assist FHA in assessing the risk of the property securing the FHA-insured mortgage.
  - FHA and the lender are the intended users of the appraisal report.
- The FHA appraiser does not guarantee that the property is free from defects.
- The appraisal establishes the value of the property for mortgage insurance purposes only.

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 and 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 sketch must reflect any functional obsolescence attributable to the floor plan design.

- The appraiser must show the calculations used to arrive at the estimated GLA.
- The appraiser must provide photographs as required in the table below and any additional exterior interior photographs, reports, studies, analysis or copies of prior listings in support of the appraiser’s observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	***Minimum Photograph Requirement***
Subject Property Exterior	• 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 • For New Construction, include photographs that depict the subject’s grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	• Kitchen, main living area, bathrooms, bedrooms • Any other rooms representing the overall condition • 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.	• Front view of each comparable • 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. **The appraiser must include his/her own photographs as well to document compliance.**
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	• Additional photographs of the common areas and shared amenities of the condominium project

Appraisal Conditions

- Appraisal conditions refer to anything the appraiser requires to occur or be known before the value conclusion can be considered valid.
- Conditions of the property, mortgage type and the market will determine if the appraisal is to be performed "as is" or if the value opinion needs to be conditioned upon an additional inspection or completion of construction, repairs or alterations.
- The appraiser must state in the appraisal report whether repairs, alterations, or inspections are necessary to eliminate conditions threatening the continued use, security and marketability of the property.

The following table illustrates conditions under which an appraisal condition must be made.

Report Conclusion	***Appraisal Condition***
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the appraiser. 2. Establishing the as is value for a 203(k). 3. The property is being recommended for rejection. 4. Intended use is for pre-foreclosure sale or claims without conveyance of title. 5. Intended use is for real estate owned (REO).	As Is
1. Proposed Construction where construction has not started. 2. Under Construction but not yet complete (less than 90%). 3. Certain section 203(k) rehabilitation mortgages depending on the scope of work.	Subject to Completion per Plans and Specifications
1. Repair or alteration condition(s) noted by the appraiser to: • Protect the health and safety of the occupants; • Protect the security of the property; • Correct physical deficiencies or conditions affecting structural integrity. 2. Certain section 203(k) rehabilitation mortgages depending on the scope of work. 3. Under construction, more than 90% complete with only minor finish work remaining (buyer preference items, e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications	Subject to the Following Repairs or Alterations
Required inspections(s) to meet HUD's MPR and MPS as noted by the appraiser.	Subject to Inspection

Valuation Development

- The appraiser must obtain credible and verifiable data to support the application of the three approaches to value.
- The appraiser must perform a thorough analysis of the characteristics of the market.
- The appraiser must perform a highest and best use of the property using all four tests and report the results of that analysis.
  - The appraiser must apply all appropriate techniques and methods, conduct an analysis and report the results
  - The appraiser must include the reasoning that supports the analyses, opinions and conclusions in the report.

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 difference between the actual and effective ages requires an explanation.
- The appraiser must state the remaining economic life as a single number or as a range for all property types.
  - The appraiser must provide an explanation if the remaining economic life is less than 30 years.
  - The appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

Comparable Selection in Diverse Markets

- Comparable sales should be selected based on similar locational and physical characteristics, not sales price.
- Arms-length activity from within the established subdivision, condominium or PUD project is often the best indicator of value.
- For properties in new subdivisions, or units in new/recently converted condominium projects, the appraiser must include properties in the subject market area as well as properties within the subject subdivision or project.
  - Whenever possible the appraiser must select at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that the market acceptance may be directly compared.
  - If the new project is mature enough to have experienced arms-length resales, the appraiser must also analyze and report those properties.

Comparable Sale Selection in Rural and Slow Growth Markets

- The appraiser must report the most recent and relevant sales and include a thorough explanation of the market conditions, the levels of supply and demand and a reason for the lack of recent sales data.
- Where there is a scarcity of recent comparable sales data, the appraiser may include sales older than 12 months as additional sales.

Bracketing

- Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.
- Comparable properties must be selected based on the principle of substitution and the analysis will reveal the relevance of that data.
  - Comparable properties should not be chosen only because their prices bracket a desired or estimated value.
- In analyzing the comparable pool to determine the best comparable sales to display and compare in the adjustment grid, the appraiser must use bracketing techniques when possible and appropriate.

Appraisal Updates

Requirements

- When requested by the lender, appraisers may perform an update of a previously completed appraisal using form 1004D.
- The appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form which includes:
  - An exterior inspection of the subject property from at least the street; and
  - Researching, analyzing, and verifying current market data to determine whether the property has or has not declined in value since the effective date of the appraisal report being updated.
- If the appraiser concurs with the original appraisal report and determines that the value has not declined, the appraiser must:
  - Indicate on the form that the value has not declined;
  - Provide any necessary comments; and
  - Provide a photo of the front of the subject property taken from the public street.
- If the appraiser does not concur with the original data report or the property value has declined, the appraiser must indicate this on the form and a photo is not required.

Market Conditions Addendum

Required Analysis and Reporting

- The appraiser must complete the Fannie Mae form 1004 MC, Market Conditions Addendum to the Appraisal Report for all appraisal assignments.
- The analysis and valuation of FHA-insured properties must properly analyze and address market trends in the subject's market.
  - Whether these trends are positive, neutral or negative, proper data collection and reporting are imperative components of a complete market conditions analysis.
  - This is most important where markets are demonstrating negative trends.
- 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 that are reported in the "Neighborhood" section of the appraisal report.
  - 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 must include sufficient data for a statistical analysis to be relevant.
- The appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated.
  - 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 of the form.
    - If it is available, the appraiser must include the data in the analysis.
- If the 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 and foreclosures.

New Construction

Definitions

Proposed, Under Construction, and Existing Less than One Year

- New Construction must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).
- New Construction refers to properties that are Proposed, 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 and placement of rebar is not considered permanent.

- **Under Construction** refers to the period from the first placement of permanent material to 100% completion before a Certificate of Occupancy (CO) or equivalent has been issued.
- **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 Certificate of Occupancy.
  - FHA treats the sale of an **occupied** property that has been completed less than one year from the issuance of the Certificate of Occupancy or equivalent as an existing property.
- **Pre-Approval** refers to properties that are less than one year old and meet one of the following requirements:
  - The property was appraised and the lender issued Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value, before construction started;
  - A building permit or its equivalent has been issued by the local jurisdiction; or
  - The lender issued an Early Start Letter.
- **Early Start Letter** refers to the document issued by the lender in response to a builder's request to start construction before the appraisal is completed.
  - The Early Start Letter indicates the lender's approval of the property before issuance of Form HUD-92800.5B and without affecting the maximum mortgage amount.
  - The lender can issue the Early Start Letter if the local jurisdiction has issued a building permit and a case number has been assigned.
- **Ten-Year Warranty** refers to an agreement between the borrower and a plan issuer which contains warranties regarding the construction and structural integrity of the property.
  - The plan must be a HUD accepted insured ten-year protection plan.

Inspections, Warranties, and Documentation for Max Financing > 90% LTV

Site Built Housing and Condominiums

- **Proposed Construction** – Obtain one of the following:
  - Copies of the building permit and Certificate of Occupancy or equivalent;
  - Footing, framing and final inspections performed by an FHA Roster Inspector on Form HUD-92051, Compliance Inspection Report,
    - For modular housing, only the footing and final inspections are required;
  - Footing, framing and final inspections performed by the local authority,
    - For modular housing, only the footing and final inspections are required; or
  - A ten-year warranty and final inspection issued by the local health authority or by an FHA Roster Inspector.
- **Under Construction** – Obtain:
  - Copies of the building permit and Certificate of Occupancy or equivalent; or
  - A ten-year warranty and final inspection issued by the local authority or by an FHA Roster Inspector.
- **Existing Less than One Year** – Obtain:
  - Copies of the building permit and Certificate of Occupancy or equivalent; or
  - A ten-year warranty and final inspection issued by the local authority or by an FHA Roster Inspector; or
  - An appraisal evidencing the property is 100% complete.

Required Documentation for Maximum Financing

- Obtain the following documents:
  - Form HUD-92541, Builder's Certification of Plans, Specifications and Site;
  - Form HUD-92544, Warranty of Completion of Construction;
  - Evidence that the property was pre-approved or the ten-year warranty plan:
    - Evidence of pre-approval is the Early Start Letter or copy of the building permit issued by the local authority prior to the start of construction.
    - For a ten-year warranty plan, evidence of acceptance or enrollment in the plan is required. The application alone is not acceptable.
  - All required inspections;
  - A Wood Infestation Report, unless the property is located in an area of no to slight infestation as indicated on HUD's Termite Exceptions Areas list:

- Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for 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.
  - ✓ 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 property is treated with a soil chemical termiticide.
  - ✓ The use of post-construction soil treatment must be rejected when the termiticide is applied only around the perimeter of the foundation.
- Local health authority well water analysis and/or septic report, if applicable.

For LTVs of 90% or Less

- Obtain the following:
  - Form HUD-92541, Builder's Certification of Plans, Specifications and Site;
  - Final inspection or, if the property is 100% complete, the appraisal;
  - A Wood Infestation Report, unless the property is located in an area of no to slight infestation as indicated on HUD's Termite Exceptions Areas list:
    - Form HUD-NPMA-99-A, Subterranean Termite Protection Builder's Guarantee, is required for 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.
      - ✓ 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 property is treated with a soil chemical termiticide.
      - ✓ The use of post-construction soil treatment must be rejected when the termiticide is applied only around the perimeter of the foundation.
  - Local health authority well water analysis and/or septic report, if applicable.

Documents Provided to the Appraiser

Documents Required Prior to Commencement of the Appraisal

- Provide the appraiser with the following:
  - A fully executed Form HUD-92541, 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 Plans and Specifications, 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% complete:
    - A list of components to be installed or completed after the date of inspection.

Lender Review of the Appraisal – New Construction

Environmental

- The underwriter must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the property's ability to serve as collateral, or the structural soundness of the improvements.

Flood Hazard Areas

- If any portion of the property improvements including the dwelling and related structures/equipment essential to the value of the property, is located within a Special Flood Hazard Area (SFHA), the property must be rejected unless:

- A final Letter of Map Amendment (LOMA) or a final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- The underwriter obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate that documents that the lowest floor, including the basement, of the residential building and all related improvements and equipment essential to the value of the property, is built at or above the 100 year flood elevation in compliance with the NFIP criteria.
  - Ensure that the flood elevation certificate is prepared by a licensed engineer or surveyor and completed based on finished construction.
  - Ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the property remains located within an SFHA.

Individual Water Supply System (Wells)

- Ensure that new wells are drilled and are not less than 20 feet deep and cased.
  - Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.
  - A well located within the foundation walls of New Construction is not acceptable except in arctic or sub-arctic regions.

Operating Oil or Gas Wells

- If a proposed or newly constructed dwelling is located within 75 feet of an operating oil or gas well, the property must be rejected unless mitigation measures are completed.

Shared Wells

- A shared well is permitted only if the underwriter obtains evidence that:
  - It is not feasible to serve the housing by an acceptable public or community water system; and
  - The housing is located in an area where local officials have certified that installation of public or adequate community water systems and sewer systems are not economically feasible.

Slush Pits

- If a property is Proposed Construction near an active or abandoned slush pit, the appraiser must require a survey to locate the pit. The underwriter is to assess any impact on the subject property.

Special Airport Hazard

- If a proposed or newly constructed property is located within runway clear zones at civil airports or within clear zones at military airfields, the property must be rejected.
  - A proposed or newly constructed property located in Accident Potential Zone 1 at military airfields may be eligible for FHA mortgage insurance provided that the underwriter determines the property complies with the Department of Defense guidelines.

Sales Comparison Approach

- For properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

Completion of Construction

- Regardless of the inspection process used, the underwriter must certify on Form HUD-92900-A, HUD/VA Addendum to the Uniform Residential Loan Application, that the property is 100% complete and meets HUD's MPR and MPS.

Refinance Transactions

Definition

- A refinance transaction is used to pay off the existing debt or to withdraw equity from the property with the proceeds of a new mortgage for a **borrower with legal title to the subject property**.
- A new appraisal must be ordered for each mortgage or refinance case number assignment and an appraisal that was performed under another case number may not be re-used even if the prior appraisal is not yet more than 120 days old.

Refinance Seasoning

- For properties acquired by the borrower **within 12 months** of the case number assignment date, the LTV is calculated using the **lesser of**:
  - The borrower's acquisition price; or
  - The current appraised value.
- For properties acquired by the borrower within 12 months of the case number assignment date by inheritance or through a gift from a family member, the LTV may be calculated using the current appraised value.
- For properties acquired by the borrower **greater than or equal to** 12 months prior to the case number assignment date, the LTV is calculated using the current appraised value.

Refinance Types

- **Cash Out Refinance** – Refers to a refinance of any mortgage or a withdrawal of equity where no mortgage currently exists in which the mortgage proceeds are not limited to a specific purpose.
- **Rate/Term Refinance** – Refers to a no cash out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.
- **Simple Refinance** – Refers to a no cash out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject property and the costs associated with the transaction.
- **Streamline Refinance** – Refers to the refinance of an existing FHA-insured mortgage requiring limited borrower credit documentation and underwriting.
  - There are two different streamline options available:
    - **Credit Qualifying** – A credit and capacity analysis of the borrower must be performed but no appraisal is required.
    - **Non-Credit Qualifying** – A credit or capacity analysis does not need to be performed and an appraisal is not required.
- **Refinancing to Buyout Title-Holder Equity** – When the purpose of the new mortgage is to refinance an existing mortgage to buyout an existing title-holder's equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation.
  - Obtain the divorce decree, settlement agreement or other legally enforceable equity agreement to document the equity awarded to the title-holder.

- **Refinancing to Payoff Recorded Land Contracts** – When the purpose of the mortgage is to pay off an outstanding **recorded** land contract, the unpaid principal balance is the same as the outstanding balance on the recorded land contract.

General Eligibility

- **FHA-to-FHA Refinances** – May be used with any refinance type.
  - Obtain a Refinance Authorization Number and Refinance Netting figures from FHA Connection for all FHA-to-FHA refinances.
- **Borrower Eligibility** – At least one borrower on the refinancing mortgage must hold title to the property being refinanced prior to the case number assignment date.
- **Temporary Interest Rate Buy-Downs** – Not permitted with refinance transactions.
- **Upfront Mortgage Insurance Premium Refunds –** If the borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage **within three years**, a refund credit is applied to

reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced mortgage according to the refund schedule shown in the following table:

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

Cash Out Refinance

- Cash out refinance transactions are only permitted on owner-occupied principal residences.
- The property securing the cash out refinance must have been owned and occupied by the borrower as their principal residence for the 12 months prior to the date of the case number assignment.
- Review the borrower's employment documentation or obtain utility bills to evidence the borrower has occupied the subject property as their principal residence for the 12 months prior to the case number assignment date.
- For subsequent cash-out refinance transactions, the borrower must have made at least **six consecutive monthly payments** on the loan being refinanced beginning with the payment made on the first payment due date; and
- The first payment due date of the new loan must occur **no earlier than 210 days** after the first payment due date of the loan being refinanced.
- Document that the borrower has made all payments for all their mortgages on other properties within the month due for the previous 12 months or since the borrower obtained the mortgage, whichever is less.
    - Other properties with mortgages must have a minimum of six months of mortgage payments.
- The payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage disbursement.
- Properties owned free and clear may be refinanced as cash out transactions.
- If the mortgage on the subject property is not reported in the borrower's credit report or is not in the name of the borrower:
    - The loan must be manually underwritten; and
    - Twelve months cancelled checks to evidence that all payments have been made by the borrower in the month due for the previous 12 months must be obtained.
- The maximum LTV/CLTV is 85% of the appraised value.
- Obtain a payoff statement for all existing mortgages.
- **Note**, Cash out refinances are not permitted in the state of Texas.

Rate/Term and Simple Refinance

- Rate/term refinance transactions are only permitted on owner-occupied principal residences.
- Review the borrower's employment documentation or obtain utility bills to evidence the borrower currently occupies the property and determine the length of time the borrower has occupied the subject property as their principal residence.
- The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.
    - For **manually underwritten** mortgages: For all mortgages on all properties with less than six months of mortgage payment history, the borrower must have made all payments within the month due.
    - For **manually underwritten** mortgages: For all mortgages on all properties with greater than six months history, the borrower must have made all mortgage payments within the month due for the six months prior to the case number assignment and have no more than one 30-day late payment for the previous six months for all mortgages.
- If the mortgage on the subject property is not reported in the borrower's credit report:
    - The loan must be manually underwritten; and

  - Twelve months cancelled checks to evidence the payment history for the previous 12 months must be obtained.
- The maximum LTV for a rate/term refinance is:
  - 97.75% for principal residences that have been owner-occupied for the previous 12 months, or owner-occupied since the acquisition if acquired within 12 months from the date of the case number assignment.
  - 85% for a borrower who has owned the subject property for more than 12 months but has occupied the subject property as their principal residence for less than 12 months prior to the date of the case number assignment; or
    - If owned less than 12 months, has not occupied the property for the entire period of ownership.
- The maximum CLTV ratio for a rate/term refinance is 97.75%.
  - For open-end lines of credit (HELOCS) use the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.
- The maximum loan amount for a rate/term refinance is the **lesser of**:
  - The maximum LTV of 97.75%; or
  - The unpaid principal balance of the first mortgage as of the month prior to loan disbursement plus;
    - The unpaid balance of any purchase money junior lien;
    - The unpaid principal balance of any junior lien over 12 months old as of the date of loan disbursement;
      - ✓ If the balance or any portion of an equity line of credit in excess of $1,000.00 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in the new mortgage.
    - Interest due on the existing mortgage;
    - Ex-spouse or co-borrower equity;
    - Mortgage insurance premium (MIP) due on the existing mortgage;
    - Any pre-payment penalties;
    - Late charges;
    - Escrow shortages;
    - Borrower paid costs associated with the new mortgage;
    - Any borrower paid repairs **required by the appraisal**; less
    - Any refund of the Upfront Mortgage Insurance Premium (UFMIP) if financed in the original mortgage.

- Obtain the payoff statement on all existing mortgages
.
- Cash back must not exceed $500.
  - Cash to the borrower resulting from the refund of the borrower's unused escrow balance from the previous mortgage must not be considered in the $500.00 cash back limit whether received at or subsequent to loan disbursement.

- When the estimated costs used in calculating the maximum mortgage amount result in greater than $500.00 cash back to the borrower at loan disbursement, reduce the borrower's outstanding principal balance to satisfy the $500.00 cash back requirement;

Streamline Refinance

- A streamline refinance may be used when the proceeds of the mortgage are used to pay off an existing FHA-insured first mortgage lien.
- All streamline refinances **must** be manually underwritten.
- A streamline refinance is only for owner-occupied principal residences.
  - Obtain utility bills to evidence that the borrower currently occupies the property as their principal residence.

- The borrower must have made all mortgage payments within the month due for the six months prior to the case number assignment date and have no more than one 30-day late payment for the previous six months for all mortgages.
- The borrower must have made the payments for all mortgages secured by the subject property within the month due for the month prior to loan disbursement.
- If the mortgage on the subject property is not reported in the borrower's credit report, 12 months cancelled checks are required to evidence a payment history for the previous 12 months.
- On the date of the FHA case number assignment:
  - The borrower must have made at least six payments on the FHA-insured mortgage that is being refinanced;
  - At least six full months must have passed since the first payment due date of the mortgage that is being refinanced;
  - At least 210 days must have passed from the closing date of the mortgage that is being refinanced; and
  - If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption.
- The refinance must provide a Net Tangible Benefit to the borrower. A Net Tangible Benefit is:
  - A reduced combined rate (refers to the interest rate on the mortgage plus the MIP rate)
  - A change from an ARM to a fixed rate mortgage that results in a financial benefit to the borrower.
- Determine that there is a Net Tangible Benefit to the borrower meeting the standards in the chart below for all streamline refinance transactions.
  - The Net Tangible Benefit is met if:
    - The mortgage term is reduced;
    - The new interest rate does not exceed the current interest rate; and
    - The combined principal, interest, and MIP payment of the new mortgage does not exceed the combined principal, interest and MIP of the refinanced mortgage by more than $50.00.

	To		
From	***Fixed Rate New Combined Rate***	***One-Year ARM New Combined Rate***	***Hybrid ARM New Combined Rate***
Fixed Rate	At least 0.5 percentage points below the prior combined rate.	At least 2 percentage points below the prior combined rate.	At least 2 percentage points below the prior combined rate.
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior combined rate.	At least 1 percentage point below the prior combined rate.	At least 1 percentage point below the prior combined rate.
Any ARM With Greater than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior combined rate.	At least 2 percentage points below the prior combined rate.	At least 1 percentage point below the prior combined rate.

- The maximum amortization period of a streamline refinance is limited to the **lesser of**:
  - The remaining amortization period of the existing loan plus 12 years; or
  - 30 years.
- The maximum loan amount for a streamline refinance is the **lesser of**:
  - The outstanding principal balance of the existing mortgage as of the month prior to the loan disbursement plus;
    - Interest due on the existing mortgage; and
    - MIP due on the existing mortgage.
  - The original principal balance of the existing mortgage including financed UFMIP less any refund of UFMIP if financed in the original mortgage.

- Cash back must not exceed $500.
    - Cash to the borrower resulting from the refund of the borrower's unused escrow balance from the previous mortgage must not be considered in the $500.00 cash back limit whether received at or subsequent to loan disbursement.
    - When the estimates utilized in calculating the maximum mortgage amount result in greater than $500.00 cash back to the borrower at loan disbursement, reduce the borrower's outstanding principal balance to satisfy the $500.00 cash back requirement.
- Obtain the payoff statement on the existing mortgage.
- Existing subordinate financing, in place at the time of the case number assignment, must be re-subordinated to the streamline refinance.
- The maximum CLTV is 125%.
    - For purposes of calculating the CLTV, use the original value of the property reflected on the MIP Netting Authorization print-out.
- Individuals may be added to the title and to the mortgage on a non-credit qualifying streamline refinance without a creditworthiness review.
- A mortgage only credit report with credit scores is required on non-credit qualifying streamline refinances.
- Verify borrower's funds to close in excess of the total mortgage payment of the new mortgage in accordance with FHA's requirements for documenting source of funds.
- Appraisals are not required on streamline refinances.
    - The receipt or possession of an appraisal does not affect the eligibility or maximum mortgage amount on streamline refinances.

Requirements for Non-Credit Qualifying Streamline Refinances

- A borrower is eligible for a streamline refinance without credit qualification if all borrowers on the existing mortgage remain as borrowers on the new mortgage.
- Mortgages that have been assumed are eligible provided the previous borrower was released from liability.
- A borrower on the mortgage to be paid may be removed from title and the new mortgage in cases of divorce, legal separation, or death when:
    - The divorce or legal separation agreement awarded the property and responsibility for payment to the remaining borrower; and
    - The remaining borrower can demonstrate that they have made the mortgage payments, from their own funds, for a minimum of six months prior to the case number assignment date.

Requirements for Credit Qualifying Streamline Refinances

- At least one borrower from the existing mortgage must remain as a borrower on the new mortgage.
- Credit qualifying streamline refinances must meet all of the requirements of manual underwriting except for any requirements for appraisals.
- For all mortgages on all properties with less than six months of mortgage payment history, the borrower must have made all payments within the month due.
- For all mortgages on all properties with greater than six months of mortgage payment history, the borrower must have made all mortgage payments within the month due for the six months prior to the case number assignment, and have no more than one 30-day late payment in the past 12 months.

Condominiums

Approval Processing

HUD Review and Approval Process

- Lenox/WesLend uses only the HUD Review and Approval Process (HRAP)
    - Lenox/WesLend does not permit the Direct Endorsement Lender Review and Approval Process (DELRAP).
- Project approval applications, annexations and recertification submissions are reviewed and processed by FHA staff.

- Determine the current status of the project by performing a search of the Condominium Approval List in FHA Connection.
- Eligible Construction Types:
  - Proposed or Under Construction
  - Existing < 12 Months Old
  - Existing Construction
  - Condo Conversions
- Required Submission Documentation:
  - Cover Letter
  - Applicable Checklist
  - All required documentation
- Submission Procedures:
  - Paper Copy; or
  - CD – Submission of a CD is the preferred method of delivery.
    - Note: Only one complete PDF file can be submitted.
- Processing Times:
  - **Initial Processing Time:** 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.
  - **NOTE:** Processing times will depend on the receipt of all documentation, acceptability of the submitted documentation and whether an environmental site review will be required for proposed or under construction projects.
  - **Florida Projects:** All requests for approval require submission to the Atlanta HOC for review.
  - **Eligible Submission Sources:** Builder, developer, Homeowner's Association, Management Company, Project Consultant or Attorney acting as an agent for the developer/builder, HOA or MC will submit the request directly to the jurisdictional HOC.
    - Applications received directly from borrowers, homeowners, sellers or real estate agents will not be processed and will be returned to the submitter.

Eligible/Ineligible Projects

Eligible Projects

- Eligible condominium projects are those that have been declared and exist in full compliance with applicable state law requirements.
- FHA insures condominium single unit loans for up to 30 year terms to purchase or refinance a unit in an FHA-approved condo project.
- The condo project must be primarily residential, contain at least two dwelling units and can be detached, semi-detached, a row house, a walk-up, mid-rise, high-rise, including those with or without and elevator.

Ineligible Projects

- FHA will not insure mortgages that are secured by units in certain type of condo projects regardless of the characteristics of the unit mortgage.
- Loans secured by units within the following types of projects are not eligible for FHA insurance:
  - All projects not deemed to be used primarily as residential.
    - Projects with 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; and
    - Projects that restrict the owner's ability to occupy the unit.
  - Projects where more than 25% of the total space is used for non-residential purposes.
    - Live/work units where more than 25% of the total project or unit square footage is used for non-residential purposes.
  - Condominium or Hotel or Condotels.

- Projects that are managed and operated as a hotel or motel even though the units are individually owned;
- Projects with names that include the words “hotel” or “motel”;
- Projects that include registration services and offer rentals of units on a daily, weekly or monthly basis; and
- Hotel or motel conversions.

- Coastal Barrier
  - Under the Coastal Barriers Act, HUD is prohibited from insuring a project located within designated coastal barriers of the Atlantic Ocean, Gulf of Mexico, or the Great Lakes.
  - Projects located within coastal barriers designated on the Department of the Interior coastal barrier resources map will not be accepted for processing.
- Timeshares or segmented ownership projects.
- Houseboat projects.
- Multi-dwelling unit condos with more than one dwelling per condo unit;
  - For example: Local code approved two units but there are two living units per approved unit.
- Assisted living facilities are generally not eligible if the features of the project are unique to assisted living facilities, including but not limited to required purchase of additional services by the unit owners, commercial interest, ownership or retention of commercial entities that provide additional services.
- The development cannot retain ownership of the common areas or amenities once transfer of control has been turned over to the homeowner’s association.

Project Types

- Proposed Construction is defined as a new development where no construction has been started.
- Under Construction is defined as:
  - A new development in which construction has been started but is not yet completed or in which units are completed but are less than one year old (existing < 12 months old); or
  - Gut rehabilitation conversions.
    - The definition of Under Construction applies to legally phased developments.
- Existing Project is defined as fully completed and is over one year old.
- Newly Completed Conversions
  - Conversion to a condominium regime occurs in those projects which involve changing the title of the existing structure generally under one title, to property that is separated into units so that the title to most units can be held separately.
    - Newly converted means condominium project applications submitted for approval within two years from the date of conversion.
  - Conversion occurs as of the date on which all the documents, specifically, the condominium declaration, necessary to create a condominium regime have been recorded in accordance with state and/or local laws.
- Converted, Non-Gut Rehabilitation Condominium Projects
  - Below is a list of non-gut rehabilitation work/repairs:
    - Painting
    - New Carpet
    - Replacement of Cabinets
    - Replacement of Fixtures
    - Replacement of Doors
    - Replacement of Windows
  - Converted, non-gut rehabilitation condo project conversions may only be processed under the HRAP option.
  - Approval is considered only for conversions that have already taken place, not based on conversions or phases of conversions that are anticipated to occur in the future.

  - All rehabilitation work/repairs involved in a condo conversion must have been completed as evidenced by an engineering or architectural inspection dated within 12 months of the work/repair completion.
  - A current (defined as not more than 24 months old) reserve study prepared by a qualified, independent professions company, accompanied by an engineer's report must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.
  - The following financial documents must be submitted for review:
    - Current Year Budget;
    - Current Balance Sheet less than 90 days old at time of submission for project approval;
    - Actual Income and Expense Statement for the project; and
    - Bank statements may also be requested.
  - The review of the financial documents must determine that the budget and operating results are sufficient and:
    - Includes allocations/line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condo project; and
    - Provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; and
    - Provides adequate funding for insurance coverage and deductibles; and
    - Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserve account.
    - In cases where the budget documents do not meet the financial review standards, a reserves study will be requested to assess the financial stability of the project.
      - ✓ The reserve study cannot be more than 24 months old.
      - ✓ When reviewing the reserve study, consideration must be given to items that have been replaced after the time that the reserve study was completed.
  - The develop must provide a detailed description of the work proposed or already completed in order for the individual project units to be ready for sale.
  - At least 50% of the total units in the project must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence purchasers. The developer may provide the following evidence to meet this requirement:
    - Copies of sales agreements and loan commitments evidencing that a lender is willing to make the loan, or evidence that the units have closed and are occupied; or
    - Information that lists all of the units already sold, under contract, or closed (such as a spreadsheet, chart or listing used for the company's own tracking purposes) that is accompanied by a signed certification from the developer (see Form Appendix B).
      - ✓ The developer is certifying to the accuracy of the submitted documentation that meets the pre-sale and/or owner-occupancy requirements.
  - A developer may own up to 50% of the total units at the time of project approval.
  - The project developer must provide a comprehensive sale and marketing strategy that includes efforts to affirmatively market the units and a transition strategy for any unit currently rented with the exception of those rentals required by state or local law, including rent controlled units.
- Converted Gut-Rehabilitation Condominium Projects
  - Below are examples of gut rehabilitation work
    - Renovation of the property down to the shell of the structure;
    - Replacement/installation of HVAC systems;
    - Replacement/installation of electrical components;
    - Any structural modification
  - Converted gut-rehabilitation condominium project conversions may only be processed under the HRAP program
  - Approval is considered only for conversions that have already taken place, not based on conversions or phases of conversions that are anticipated to occur in the future.
  - All rehabilitation work involved in a condo conversion must be completed as evidenced by an engineering or architectural inspection dated within 12 months of the work/repair completion.

- A current, nor more than 24 month old, reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.
- The following financial documents must be submitted for review:
  - Current Year Budget;
  - Current Balance Sheet less than 90 days old at time of submission for project approval;
  - Actual Income and Expense Statement for the project; and
  - Bank statements may also be requested.
- The review of the financial documents must determine that the budget and operating results are sufficient and:
  - Includes allocations/line items to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the condo project; and
  - Provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget; and
  - Provides adequate funding for insurance coverage and deductibles; and
  - Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the HOA's reserves account.
- In cases where the budget documents do not meet the financial review standards, a reserve study will be requested to assess the financial stability of the project.
  - The reserve study cannot be more than 24 months old.
  - When reviewing the reserves study, consideration must be given to items that have been replaced after the time that the reserve study was completed.
- The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.
- The project developer must provide a comprehensive sales and marketing strategy.
- In the event that FHA is insuring a mortgage on a unit and an undivided interest in the common elements on a project undergoing substantial rehabilitation, the entire condo project, including the common facilities, must be 100% completely built before any mortgage may be endorsed, with the exception of those items that are buyer's preference (interior only).
- A building permit, or its equivalent, is required as well as a Certificate of Occupancy or its equivalent.

- Cooperative to Condominium Conversions
  - To be eligible for FHA condo project approval cooperative to condominium conversions should comply with the following standards:
    - The underlying "blanket" mortgage has been paid in full.
    - All share interests have been converted to deeds.

Proposed, Under Construction, Gut-Rehabilitation Conversion – Project Phasing

- Legal phasing is permitted for condo processing as described below. 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 consecutive residential floors, except where the owner provides documentation that a group of less than five floors is required; and
  - 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.
- For purposes of calculating the owner-occupancy percentage and FHA concentration percentage:
  - On multi-phased projects, the owner-occupancy and FHA concentration percentages is calculated on total number of units in the first declared phase and cumulatively on subsequent phases.
  - In single-phase condominium project approval requests, all units are used in the denominator when calculating the 50% owner-occupancy and FHA concentration percentages.

Environmental Review Requirements

- For Proposed or Under Construction projects, a Phase I Environmental Site Assessment (ESA) performed in accordance with the "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. In addition, for the HRAP option, environmental reviews will be required for projects that, at the time that condo 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 have been 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 (parking lots, community building, swimming pools, golf course, playground, etc) and buildings containing the condo units has proceeded to a point that precludes any major changes.

Unique Projects

- Projects that require special attention due to their complexity are identified below. These requirements are in addition to other stated requirements in this guide as applicable.

Site Condominiums

- Condo project approval is not required for Site Condominiums meeting all of the below defined requirements:
  - Single family totally detached dwellings (no shared garages or any other attached buildings or archways, breezeways; and
  - Are encumbered by a declaration of condominium covenants or condominium form of ownership; and
  - The condominium unit consists of the entire structure as well as the site and air space and are not considered to be common areas or limited common areas; and
  - Insurance and maintenance costs are totally the responsibility of the unit owner; and
  - Any common assessment collected will be for amenities outside of the footprint of the individual site.
    - Condominiums that do not meet this definition will require full project approval.
    - Modular homes are processes as single family homes for insurance purposes and are eligible to be treated as Site Condominiums as long as they meet the stated definition above.