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Program Overview

This FHA Program Guide provides an overview of the FHA products and policies eligible for delivery to Pacific Union Financial for financing consideration by Non-Delegated Correspondents only. This guidance is not intended for use by Delegated Correspondents and if followed by a Delegated Correspondent, will not provide the Delegated Correspondent relief of any representation and warranties as required under the Purchase Contract.

Credit Philosophy

The Pacific Union Financial philosophy is to offer the Program with minimal overlays to our clients. All loans are evaluated in accordance with the following principles:

- All loans must be submitted to TOTAL Scorecard except as follows:
  - Streamline Refinance transactions
  - Loans for borrowers without a credit score
  - Section 203(h) Mortgage Insurance Disaster Victim transactions
- Each loan is evaluated in accordance with:
  - FHA policies collectively defined in the HUD Handbook 4000.1 and all applicable HUD Handbooks.
  - Desktop Underwriter (DU) or Loan Product Advisor (LPA) recommendations.
  - Loans submitted to DU or LPA that do not receive a credit approval may not be resubmitted to the other automated underwriting system (AUS).
  - **Note:** This rule does not apply to loans that do not receive an AUS approval due to non-credit related items, such as product/program eligibility.
  - 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 weighed in when evaluating a loan file. The underwriting decision is not based on any single item or factor.

Ability to Repay and Qualified Mortgages

Pacific Union is committed to complying with Ability-to-Repay and Qualified Mortgage rules (ATR/QM) by making a reasonable, good-faith determination that borrowers have a reasonable ability to repay the loan in accordance with the polices set forth within The Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA) guidelines. Factors considered in making this determination include the borrower’s income, assets and employment status (if relied on) against the mortgage loan payment, ongoing expenses related to the mortgage loan or the subject property, payments on simultaneous loans secured by the subject property, other debt obligations, and alimony and child-support payments as required by the HUD/FHA. A borrower’s credit history is also considered in the evaluation and must comply with HUD/FHA policies. Pacific Union will utilize reasonably reliable third party sources of information.

Product Overlays

- Pacific Union Financial makes every effort to keep guideline overlays to a minimum.
- Existing overlays are detailed in the Overlay Matrix.
- Several policies that were previously classified as overlays have been reviewed and reclassified as not being overlays. Information regarding those items may be found in the Reclassified Overlay Matrix.
• Overlays that have been withdrawn or lifted are detailed in the Withdrawn-Lifted Overlay Matrix.

Documentation Requirements

• Documents related to employment, income, assets, or the borrower’s credit must not have been handled by, or transmitted from or through the equipment of unknown parties, or Interested Parties.
• All documents received electronically must be authenticated by examining the source identifiers (e.g., the fax banner header or the sender’s email address) or contacting the source of the document by telephone to verify the document’s validity. The name and telephone number of the individual that verified the validity of the document must be documented.
• Documents obtained from an Internet website must contain the same information that would be included on an original hard copy of the same document. The Internet source Uniform Resource Locator (URL) address and date/time stamp must be examined and authenticated by verifying that the Internet website is password protected.
• Refer to Documentation Matrix for a list of HUD required disclosures.

Age of Documents

• Documents used for originating and underwriting a loan may not be more than 120 days old as of the Disbursement date.
• Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 days old as of the Note date.

Signature Requirements

• Uniform Residential Loan Application (URLA):
  ▪ All borrowers must sign and date the initial and final. Refer to Electronic/Digital Signatures section if the URLA is being signed electronically.
  ▪ The actual licensed loan originator identified that secured URLA must include their name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number and signature on the URLA.
  ▪ The application may not be signed by any party who will not be on the Note.
• Borrower’s authorization to verify information is required by all parties prior to processing the mortgage application.
• Consent and authorization must be obtained from a non-borrowing spouse, when necessary to verify specific information to process the loan application such as consent to verify their SSN with the Social Security Administration (SSA).
• All borrowers are required to sign and date HUD/VA Addendum to Uniform Residential Loan Application (HUD 92900-A):
  ▪ All sections of page two and the borrower’s certificate on page 4 of the initial form HUD 92900-A must be signed; and
  ▪ The final form HUD 92900-A.
• Mortgagees are not permitted to have borrowers sign documents in blank, incomplete documents, or blank sheets of paper.
Electronic/Digital Signatures

- Must comply with the Electronic Signature Performance Standards (Performance Standards).
- Are not acceptable if solely voice or audio.
- Allowed on all documents, including HUD REO sales contracts, HUD 92900-A and related addenda.
- The Note may not be electronically/digitally signed.
- Third party documents must comply with the ESign Act and the Uniform Electronic Transactions Act (UETA).
  - Electronic signature technology must comply with all requirements of the E-Sign Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.
  - The electronic signature and date should be clearly visible when viewed electronically and on paper.
  - The electronic signature is only valid under the E-sign Act if they are “executed or adopted by a person with the intent to sign the record”.

Power of Attorney (POA)

- A POA may be used to sign the initial or final documents for all borrowers, with the following exception:
  - For military personnel, a POA may only be used for one of the applications (initial or final), but not both, where:
    - The service member is on overseas duty or on an unaccompanied tour;
    - The mortgagee is unable to obtain the absent Borrower’s signature on the application by mail or via fax; and
    - The attorney-in-fact has specific authority to encumber the property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
  - 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, or the property is being underwritten as an eligible Investment Property; and
    - The attorney-in-fact has specific authority to encumber the property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

Program Parameters

Eligible Programs

Standard

- 15 year Fixed Rate – Conforming Balance only
- 20, 25 and 30 year Fixed Rate – Conforming and High Balance
- 3/1 and 5/1 fully amortizing 30 year Hybrid ARM with 1/1/5 cap.

Specialty

- 15 Fixed Rate – Conforming Balance only
20, 25 and 30 year Fixed Rate – Conforming and High Balance
ARMs are not allowed

**Program Details**
- All programs are fully amortizing loans.
- Loans are assumable by a qualified borrower during the life of the loan.
- Temporary buydowns are not permitted.

**ARM Program Information**
- 3/1 and 5/1 Hybrid ARM loans:
  - Index used to calculate interest rate adjustments is the weekly average yield of U.S. Treasury securities adjusted to a constant maturity of one year, commonly referred to as the 1-Year Constant Maturity Treasury (CMT) index.
  - 2% margin – see daily rate sheet.
  - Interest rate cannot increase or decrease more than 1% per year or more than 5% over the life of the loan.
  - The interest rate is fixed for the first 36 months for 3/1 ARMs and 60 months for 5/1 ARMs.
  - The interest rate will adjust on the following Jan 1, April 1, July 1 or October 1. Adjustments will occur annually thereafter.
  - Payment adjustments will occur one month after the interest rate adjustment.
  - ARM's are not convertible.

**FHA ARM Adjustment Date Matrix**

<table>
<thead>
<tr>
<th>Loan Disbursement Month</th>
<th>Pac Union Required Delivery Date</th>
<th>Pac Union Required Purchase Date</th>
<th>First Payment Due Date</th>
<th>First Rate Change Date</th>
<th>Internal Use Only 3/1 Initial Adjmt Term</th>
<th>5/1 Initial Adjmt Term</th>
<th>First Payment Change Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>11/2/2017</td>
<td>11/17/2017</td>
<td>October 1</td>
<td>January 1</td>
<td>40 months</td>
<td>64 months</td>
<td>February 1</td>
</tr>
<tr>
<td>September</td>
<td></td>
<td></td>
<td>November 1</td>
<td>January 1</td>
<td>39 months</td>
<td>63 months</td>
<td>February 1</td>
</tr>
<tr>
<td>October</td>
<td></td>
<td></td>
<td>December 1</td>
<td>January 1</td>
<td>38 months</td>
<td>62 months</td>
<td>February 1</td>
</tr>
<tr>
<td>November</td>
<td>2/3/2017</td>
<td>2/17/2017</td>
<td>January 1</td>
<td>April 1</td>
<td>40 months</td>
<td>64 months</td>
<td>May 1</td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
<td>February 1</td>
<td>April 1</td>
<td>39 months</td>
<td>63 months</td>
<td>May 1</td>
</tr>
<tr>
<td>January</td>
<td></td>
<td></td>
<td>March 1</td>
<td>April 1</td>
<td>38 months</td>
<td>62 months</td>
<td>May 1</td>
</tr>
<tr>
<td>February</td>
<td></td>
<td></td>
<td>April 1</td>
<td>July 1</td>
<td>40 months</td>
<td>64 months</td>
<td>August 1</td>
</tr>
<tr>
<td>March</td>
<td>5/5/2017</td>
<td>5/19/2017</td>
<td>May 1</td>
<td>July 1</td>
<td>39 months</td>
<td>63 months</td>
<td>August 1</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td></td>
<td>June 1</td>
<td>July 1</td>
<td>38 months</td>
<td>62 months</td>
<td>August 1</td>
</tr>
<tr>
<td>May</td>
<td>8/4/2017</td>
<td>8/18/2017</td>
<td>July 1</td>
<td>October 1</td>
<td>40 months</td>
<td>64 months</td>
<td>November 1</td>
</tr>
<tr>
<td>June</td>
<td></td>
<td></td>
<td>August 1</td>
<td>October 1</td>
<td>39 months</td>
<td>63 months</td>
<td>November 1</td>
</tr>
<tr>
<td>July</td>
<td></td>
<td></td>
<td>September 1</td>
<td>October 1</td>
<td>38 months</td>
<td>62 months</td>
<td>November 1</td>
</tr>
</tbody>
</table>
### Eligible Section of the ACT

<table>
<thead>
<tr>
<th>Eligible Section of the Act</th>
<th>DE ADP Code</th>
<th>Brief Description</th>
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<tbody>
<tr>
<td>203(b)</td>
<td>703</td>
<td>Fixed Rate</td>
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<tr>
<td></td>
<td>729</td>
<td>Adjustable Rate Mortgage (ARM)</td>
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<tr>
<td></td>
<td>731</td>
<td>ARM Detached Site Condominium</td>
</tr>
<tr>
<td></td>
<td>734</td>
<td>Fixed Rate Detached Site Condominium</td>
</tr>
<tr>
<td></td>
<td>804</td>
<td>Refinance of Borrower in Negative Equity Position (Fixed Rate Non-Condo)</td>
</tr>
<tr>
<td></td>
<td>822</td>
<td>Refinance of Borrower in Negative Equity Position (ARM Non-Condo)</td>
</tr>
<tr>
<td></td>
<td>804</td>
<td>Rehabilitation Home Mortgage Insurance Condominium</td>
</tr>
</tbody>
</table>

#### Ineligible Features
- Building on own land
- Construction to Perm
- Easements and Deed Restrictions
- Loans with resale deed restrictions
- Proposed or Under Construction

#### Ineligible Products
- Economic Life / Section 223(e) loans
- Energy Efficient Mortgages (EEM)
- Good Neighbor Next Door
- Hawaiian Homelands
- Loans to Non-Profit Organizations
- Reverse Mortgages
- Disaster Victim 203(h) refinance transactions
- Section 248 Mortgages on Indian Reservations and Other Restricted Land
- Standard 203(k) Rehabilitation Mortgage
- Limited 203(k) Rehabilitation Mortgage
- Texas Home Equity
Occupancy Requirements

Primary Residence
- 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.
- With the exception of a borrower meeting Multiple FHA Loan requirements, FHA will not insure more than one principal residence at a time.

Secondary Residence
Refers to a dwelling that a borrower occupies in addition to their principal residence, but less than a majority of the calendar year.
- Does not include a vacation home.
- Only permitted with written approval from the Jurisdictional HOC after a determination that:
  - The borrower has no other secondary residence;
  - The secondary residence will not be a vacation home or be otherwise used primarily for recreational purposes;
  - The commuting distance to the borrower’s workplace creates and undue hardship on the Borrower and there is no affordable rental housing meeting the borrowers needs within 100 miles of the borrowers workplace; and
  - The maximum mortgage amount is 85% of the lesser of the appraised value or sales price.
- The borrower must provide the following to evidence lack of affordable rental housing:
  - A satisfactory explanation of the need for a secondary residence and the lack of available rental housing; and
  - A local real estate professional written verification of lack of acceptable housing in the area.

Investment Property
Refers to a property that is not occupied by the borrower as a principal or secondary residence. Refer to Streamline Refinance for detailed requirements.

Loan Limits
- For all transactions with an appraisal, the maximum base loan amount (excluding UFMIP) cannot exceed the FHA Statutory Mortgage Limits for the applicable county.
- Streamline Refinance transactions without an appraisal are not subject to the county loan limits.
- Conforming Balance and High Balance loan amounts are available.
- $50,000 minimum loan amount
- Refer to FHA Mortgage Limits to look up FHA mortgage limits for one or more area.
Effective with case numbers assigned on or after January 1, 2017

<table>
<thead>
<tr>
<th>Units</th>
<th>Conforming Balance</th>
<th>High Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contiguous States</td>
<td>Hawaii 3</td>
</tr>
<tr>
<td>1</td>
<td>$424,100</td>
<td>$636,150</td>
</tr>
<tr>
<td>2</td>
<td>$543,000</td>
<td>$814,500</td>
</tr>
<tr>
<td>3</td>
<td>$656,350</td>
<td>$984,525</td>
</tr>
<tr>
<td>4</td>
<td>$815,650</td>
<td>$1,223,475</td>
</tr>
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</table>

Minimum-Conforming: $50,000; Minimum-High Balance: Conforming loan amount plus $1

1. Maximum loan amounts are based on the applicable FHA Mortgage Limits for the subject property.
2. **Alaska:** There are currently no High Balance county loan limits available in Alaska.

Effective with case numbers assigned prior to January 1, 2017

<table>
<thead>
<tr>
<th>Units</th>
<th>Conforming Balance (Maximum)</th>
<th>High Balance (Minimum to Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$417,000</td>
<td>$417,001 to FHA county limit</td>
</tr>
<tr>
<td>2</td>
<td>$533,850</td>
<td>$533,851 to FHA county limit</td>
</tr>
<tr>
<td>3</td>
<td>$645,300</td>
<td>$645,301 to FHA county limit</td>
</tr>
<tr>
<td>4</td>
<td>$801,950</td>
<td>$801,951 to FHA county limit</td>
</tr>
</tbody>
</table>

**Alaska and Hawaii**

<table>
<thead>
<tr>
<th>Units</th>
<th>Conforming Balance (Maximum)</th>
<th>High Balance (Minimum to Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$625,500</td>
<td>$625,501 to FHA county limit</td>
</tr>
<tr>
<td>2</td>
<td>$800,775</td>
<td>$800,776 to FHA county limit</td>
</tr>
<tr>
<td>3</td>
<td>$967,950</td>
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</tr>
<tr>
<td>4</td>
<td>$1,202,925</td>
<td>$1,202,926 to FHA county limit</td>
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# Minimum Decision Credit Score (MDCS) and Loan to Value (LTV) Matrices

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Purpose</th>
<th>Units</th>
<th>MDCS</th>
<th>LTV</th>
<th>CLTV</th>
<th>Standard¹</th>
<th>Specialty² Fixed Rate only</th>
<th>Specialty² Rate/Term only</th>
<th>Specialty² Cash Out</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>MDCS</td>
<td>LTV</td>
<td>CLTV</td>
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<tr>
<td>Primary Residence</td>
<td>Purchase</td>
<td>1-4</td>
<td>620</td>
<td>96.5%</td>
<td>96.5%</td>
<td>96.5%</td>
<td>560</td>
<td>≤90%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Rate/Term</td>
<td>1-4</td>
<td>620</td>
<td>97.75%</td>
<td>97.75%</td>
<td>97.75%</td>
<td>560</td>
<td>&gt;90%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Cash Out</td>
<td>1-4</td>
<td>620</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>560</td>
<td>≤90%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Conforming Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>560</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>High Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>560</td>
<td>≤75%</td>
<td>75%</td>
</tr>
<tr>
<td>Secondary Residence</td>
<td>Rate/Term</td>
<td>1 Unit Only</td>
<td>620</td>
<td>100%</td>
<td>N/A</td>
<td>N/A</td>
<td>560</td>
<td>100%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Simple Refinance</td>
<td>1 Unit Only</td>
<td>620</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>560</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td></td>
<td>203(h) for Disaster Victims¹¹</td>
<td>1 Unit Only</td>
<td>620</td>
<td>100%</td>
<td>N/A</td>
<td>N/A</td>
<td>560</td>
<td>100%</td>
<td>N/A</td>
</tr>
<tr>
<td>All Occupancy Types</td>
<td>Credit Qualifying Streamline Refinance</td>
<td>1-4</td>
<td>620</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>560</td>
<td>≤90%</td>
<td>580</td>
</tr>
<tr>
<td></td>
<td>Non-Credit Qualifying Streamline Refinance</td>
<td>1-4</td>
<td>620</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>560</td>
<td>≤90%</td>
<td>580</td>
</tr>
<tr>
<td></td>
<td>Non-Traditional/ Insufficient Credit</td>
<td>1-4</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
<td>See Pricing Policy below</td>
<td>See Pricing Policy below</td>
<td>See Pricing Policy below</td>
<td>Eligibility is based on the applicable occupancy and loan purpose.</td>
</tr>
</tbody>
</table>

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¹ Standard: MDCS = Minimum Decision Credit Score
² Specialty: LTV = Loan to Value
³ CLTV = Combined Loan to Value

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1. Standard product parameters are applicable to Conforming and High Balance loan amounts.
2. Unless noted otherwise, Specialty product parameters are applicable to Conforming and High Balance loan amounts.
4. Maximum 100% LTV/CLTV for HUD REO $100 Down Payment program transactions.
5. Maximum 85% LTV for Identity of Interest and Tenant/Landlord transactions. Refer to Identity of Interest Transactions for additional details.
6. Maximum 75% LTV for non-family member, Non-Occupant Co-Borrower transactions. Refer to Co-Borrower/Non-Occupying for additional details.
7. In some circumstances, subordinate financing/CLTV limits may exceed the applicable LTV limit. Refer to Secondary Financing for additional details.
8. 85% maximum LTV for properties occupied as a principal residence less than 12 months or owned less than 12 months but not occupied the entire period. Refer to Rate/Term Refinance for additional details.
9. ARMs not allowed for Secondary Residences and Investment Properties.
10. Refer to Streamline Refinances for details regarding calculating the maximum base loan amount.
11. 15 and 30 year Fixed Rate Conforming Balance and 30 year High Balance only.

**Pricing Policy**

**Non-Credit Qualifying Streamlined Refinance:**
- A credit report is not required. If a credit report is obtained, pricing will be determined as follows:
  - ≥620 credit score: Subject to Standard pricing tier.
  - <620 credit score: Subject to Specialty pricing tier.
- If no credit report is obtained or one or more borrowers do not have a credit score: Subject to the lowest (worst case) Specialty pricing tier.

**Non-Traditional/Insufficient Credit:**
- If the loan includes only one borrower and the borrower does not have a credit score, pricing will be based on a 580 credit score.
- If the loan includes multiple borrowers and one or more of the borrowers does not have a credit score, pricing will be based on the lower of the available credit score or 580.
- For accurate pricing, the lower of the available score or 580 must be entered in the LOS.

**Assets**

Refer to HUD 4000.1 for guidelines not addressed in this section.

**Cash Deposit on Sales Contract (Earnest Money)**
- Verification of earnest money deposit is required if the amount exceeds 1% of the sales price or appears excessive based on the borrower’s savings history.
- Required documentation is as follows:
  - A copy of the borrower’s canceled check;
  - Certification from the deposit-holder acknowledging receipt of funds; or
  - A VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.
- If the source of the earnest money is a gift, verify that the funds meet Gift Funds requirements.
Cash Saved at Home

- Borrowers who have saved cash at home and are able to adequately demonstrate the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage.
- The funds must be verified, whether deposited in a financial institution, or held by the escrow/title company.
- The borrower must provide satisfactory evidence of the ability to accumulate the savings.
- The borrower must explain in writing:
  - How the funds were accumulated, and
  - The amount of time it took to accumulate the funds.
- It must be determined that the accumulation of cash is reasonable, based on the time period during which the funds were saved, and the borrower’s income stream, spending habits, documented expenses, and the borrower’s history of using financial institutions.
- Borrowers with checking or savings accounts are less likely to save money at home than individuals with no history of using bank accounts.

Checking and Savings Account

- Refers to funds from borrower held accounts in a financial institution that allows for withdrawal and deposits.
- If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement to confirm that the borrower has full access and use of the funds.
- Funds must be documented as follows:
  - A written Verification of Deposit (VOD) and the borrower’s most recent bank statement for each account; or
  - Bank statement for the most recent month showing the previous month’s ending balance. If the previous month’s balance is not shown, two months most recent bank statements must be obtained.
- The following requirements apply to recently opened accounts and recent individual deposits of more than 1% of the Adjusted Value of the property:
  - Document the source of the deposit.
  - Document that no debts were incurred to obtain part or all of the Minimum Required Investment (MRI).
  - Funds must be properly sourced when an account is opened within 90 days of the VOD and/or when the current account balance is significantly greater than the average balance.
  - If a portion of the borrower’s funds were to be saved by the borrower between the date of the loan application and the date of the loan closing, the loan file documents must show that funds were accumulated and deposited prior to closing.

Down Payment Assistance Programs

- FHA does not “approve” down payment assistance programs administered by charitable organizations, such as nonprofits.
- Gift funds provided by a charitable organization must meet the appropriate FHA requirements and the transfer of funds must be properly documented. Refer to Gift Funds for additional details.
Non-profit entities providing down payment assistance must have Section 501(c)(3) status. One source for verifying that the entity meets this requirement is IRS Exempt Organization Select Check. This resource provides a listing of tax-deductible charitable contributions organizations.

If a charitable organization makes a gift that will be used for all, or part, of a borrower’s down payment, and the organization providing the gift loses or gives up its federal exempt status, FHA will recognize the gift funds as an acceptable source of the down payment if:

- The gift is made to the borrower;
- The gift is properly documented; and
- The borrower has entered into a sales contract (including any amendments) on or before the date the IRS officially announces that the charitable organization’s tax-exempt status is terminated.

Nonprofit entities may not provide gifts to pay off:
- Installment loans
- Credit Cards
- Collections
- Judgements
- Liens
- Similar debts

**Employer Assistance**

- Refers to benefits provided by an employer to relocate the borrower or assist in the borrower’s housing purchase, including closing costs, MIP, or any other portion of the MRI.
- Employer assistance does not include benefits provided by an employer through secondary financing.
- **Relocation Guaranteed Plan:**
  - An executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt secured by the borrower’s previous residence is required.
  - Verified and documented net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) from the sale of the borrower’s previous residence may be used for cash to close.
- **Employer Assistance Plan:**
  - Verify and document the borrower’s receipt of assistance.
  - Funds received may be used for cash to close. If the employer provides this benefit after settlement, verify and document that the borrower has sufficient cash for closing.
  - **Note:** A salary advance cannot be considered as assets to close.

**Gift Funds (Personal)**

- Loans with gift funds must be submitted to TOTAL Scorecard through DU. Submission to LPA will result in an uninsurable loan and therefore is NOT allowed.
- Gift funds used to pay the borrower’s closing costs and MRI may be obtained from the following acceptable sources:
  - The borrower’s family member. Refer to the Identify of Interest Transactions for the definition of 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.
- A government agency or public entity that has a program providing home ownership assistance to low and moderate income families or first time homebuyers.
- See Cash Reserves for excess gift fund usage allowance.
- Federal, State, local government agencies and approved non-profit agencies considered by to be an instrumentality of the government may provide funds for down payment, closing costs and prepaid expenses.
- The lender or its affiliates may not provide a loan of gift funds to the donor unless the terms of the loan are equivalent to loans available to the general public.
- Cash on hand is not an acceptable source of donor gift funds.
- Refer to the Pacific Union Financial Gift Letter for documentation requirements.

**Gifts of Equity (Real Estate)**

- Only family members may provide equity credit as a gift on the property being sold to other family members. Refer to Identity of Interest Transactions for the definition of a family member.
- A gift letter must be signed and dated by the donor and the borrower. Refer to Gift Funds for detailed gift letter requirements.

**Grants**

**Disaster Relief**

Refers to grants from a Government Entity that provides immediate housing assistance to individuals displaced due to a natural disaster.

- Disaster Relief grant funds must be used to meet the borrower’s MRI subject to Source Requirements for the Borrower’s MRI guidelines.
- Receipt of the grant funds and the terms of use must be verified and documented.

**Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program**

- AHP grant funds may be used to meet the borrower’s MRI subject to Source Requirements for the Borrower’s MRI guidelines.
- A Retention Agreement is required by the FHLB and must be recorded against the property and result in a Deed Restriction, not a second lien. The Retention Agreement must be verified, documented and must meet the following requirements:
  - Provide that the FHLP will have ultimate control over the AHP grant funds if the funds are repaid by the borrower;
  - Provide language terminating the legal restrictions on conveyance if the title to the property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
  - Comply with all other FHA regulations.
- **Note:** Secondary financing that creates a lien against the property is not considered a gift or grant even if it does not require regular payment or has other features forgiving the debt.
Inducement to Purchase

Refers to certain expenses paid by the seller and/or another interested party on behalf of the borrower. Inducements result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the property before applying the appropriate LTV percentage.

- Inducements include, but are not limited to, the following:
  - 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 consumer debt
  - Personal property
  - Sales commission on the borrower’s present residence; and
  - Below market rent, except for borrowers who meet the Identity of Interest exception for family members.

- Replacement of existing personal property items listed below are not considered 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(s)
  - Other items determined appropriate by the HOC

  **Note:** The inclusion of these items in the sales agreement is also not considered an inducement to purchase if inclusion is customary for the area.

- The following scenarios related to Sales Commission are considered an inducement to purchase:
  - The seller and/or an interested party agrees to pay any portion of the borrower’s sales commission on the sale of the borrower’s present residence.
  - The borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions.
  - The seller is paying a real estate commission on the property being purchased by the borrower that exceeds what is typical for the area.

- Rent may be an inducement to purchase when the sales agreement reveals that a borrower has been living rent free in a property that they are purchasing or has an agreement to occupy the property at a rental amount considerably below fair market rent.
  - Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a property at an agreed upon time and permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.
Interested Party Contributions

- Interested parties are defined as sellers, real estate agents, builders, developer or other parties with an interest in the transaction.
- Contributions by an interested party may not exceed 6% of the sales price.
- Interested party credits may be applied to cover:
  - Closing costs.
  - Prepaid items, including any items paid outside of closing (POC).
  - Permanent interest rate buydowns and other payment supplements.
  - Mortgage interest for fixed rate mortgages.
  - Mortgage payment protection insurance.
  - UFMIP.
- Interested party contributions may not be applied toward the borrower’s MRI, with the exception of POCs that were paid with the Borrower’s own funds AND are being refunded by an interested party contribution.
- Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, are not considered an interested party contribution.
- Amounts that exceed actual origination fees, other closing costs, discount points and 6% of the sales price are considered an Inducement to Purchase.
- Where real estate taxes are paid in arrears, the seller’s real estate tax credit may be used to meet the MRI, provided the file includes documentation that the borrower has sufficient funds to meet the MRI requirement and the borrower paid closing costs at the time of underwriting. This permits the borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit to meet the total MRI requirement.
- The total contribution must be documented on the sales contract and form HUD 92900-LT, settlement statement or a similar legal document.
- See Premium Pricing.

Loans

- Any loan of the borrower’s MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower’s MRI.
- Collateralized Loans:
  - A loan fully secured by a financial asset of the borrower, such as deposit accounts, certificates of deposit, investment accounts, or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.
  - Only independent third parties may provide the borrowed funds for collateralized loans. The seller, real estate agent or broker, lender, or other interest parties may not provide such funds.
  - Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes.
  - The amount of the corresponding asset must be reduced by the amount of the collateralized loan.
  - The existence of the asset used to collateralize the loan, the promissory note securing the asset, and the loan proceeds must be verified and documented.
- Loans secured by Retirement Accounts:
The existence of the borrower’s retirement accounts, the account balance and the outstanding loan balance must be verified and documented.

The retirement account asset must be reduced by the amount of the outstanding balance of the retirement account loan.

Disaster Relief Loans:
- Loans from a governmental entity that provides immediate housing assistance to individuals displaced due to a natural disaster.
- Any loan of the borrower’s MRI must also comply with the additional requirements set forth in Source Requirement for the Borrower’s MRI.
- The promissory note must be verified, documented and any monthly payment for the disaster relief loan included in the borrower’s qualifying ratios.
- SBA secured or unsecured disaster relief loans that will be secured by the property being purchased must meet secondary financing provided by Governmental Entities and be clearly subordinate to the FHA-insured mortgage.

Premium Pricing
- Premium pricing may be used to pay a borrower's actual closing costs, prepaid items and UFMIP.
- Closing costs paid in this manner do not need to be included as part of Interested Party Contribution limits.
- The funds derived from a premium priced loan, must meet the following requirements:
  - Must be disclosed in accordance with RESPA; and
  - 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 payments of debts, collection accounts, escrow shortages, missed mortgage payments, late fees or judgments.

Private Savings Clubs
- Refers to a non-traditional method of savings by making deposits into a member managed resource pool.
- Private Savings Club funds that are distributed and received by the borrower are considered an acceptable source of funds if all of the following requirements are met:
  - Documentation of the establishment and duration of the club.
  - The borrower’s receipt of funds from the club must be verified and documented.
  - The club's account ledgers and receipts must be provided.
  - Verification must be obtained from the club treasure to confirm that the club is still active.

Real Estate Commission
- Refers to the borrower’s (i.e. buyer’s) portion of a real estate commission earned from the sale of the property being purchased.
- Commission is considered an acceptable source of funds if the borrower is a licensed real estate agent.
- A family member entitled to the commission may also provide their commission as a gift, in compliance with standard gift requirements. Documentation must be provided to verify that the family member is a licensed real estate agent and is entitled to the commission.
Rent Credits

- Refers to the amount of the rental payment that exceeds the appraiser’s estimate of fair market rent.
- The option to purchase agreement, the appraiser’s estimate of fair market rent and evidence of receipt of payments is required.
- The cumulative amount of the rental payments that exceed the appraiser’s estimate of fair market rent may be used towards the borrower’s MRI.

Retirement Accounts

- Up to 60% of the value of assets such as Individual Retirement Accounts (IRA), thrift savings plans, 401(k) and Keogh accounts may be included in the underwriting analysis, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn, after subtracting any Federal income tax and withdrawal penalties.
- The most recent monthly or quarterly statement is required to verify and document all of the following:
  - The existence and amounts in the borrower’s retirement accounts.
  - The borrower’s eligibility for withdrawals.
  - The terms and conditions for withdrawal from any retirement account.
- If any portion of the asset is required for funds to close, evidence of liquidation is required.
- The portion of the assets not used to meet closing requirements, after adjusting for federal income taxes and withdrawal penalties may be counted as reserves.

Sale of Personal Property

- Borrowers may sell personal property such as cars, recreational vehicles, stamp or coin collections, or baseball collections to obtain cash for closing, subject to the following:
- Borrower must provide a satisfactory estimate of the value of the items and evidence that the items were sold.
- The value estimate may be in the form of:
  - Published value estimates issued by organizations such as automobile dealers philatelic or numismatic associations related to the asset type, or
  - A separate written appraisal by a qualified appraiser with no financial interest in the transaction.
- The lower of the estimated value or the actual sales price may be used as assets to close.

Sale of Real Property

- Refers to the sale of property currently owned by the borrower.
- Net proceeds from the sale may be used as an acceptable source of funds.
- A fully executed Settlement Statement or similar legal document is required to verify and document the actual sale and the net sale proceeds.
- Verification and documentation that the transaction was arms-length and that the borrower is entitled to the net sales proceeds is also required.

Secondary Financing

Refer to Secondary Financing for source of funds requirement.
Stocks and Bonds

- Stocks and Bonds are investment assets accumulated by the borrower.
- Monthly or quarterly brokerage statement(s) for the most recent two month period are required to determine the value of the stocks and bonds.
- Evidence of liquidation is not required.
- For stocks and bonds not held in a brokerage account, a copy of each stock or bond certificate is required.
- If the stocks and bonds are not held in a brokerage account, the current value of the stocks and bonds must be verified through a third party and a copy of each stock or bond certificate is required.
- Government issued saving bonds are valued at the original purchase price, unless the bonds are eligible for redemption when cash to close is calculated.

Sweat Equity

- Refers to labor performed or materials furnished by or on behalf of the borrower before closing on the property being purchased.
- The reasonable estimated cost of the work or materials that have not already been included in the mortgage amount may be considered as an acceptable source of funds.
- Sweat equity provided by anyone other than the borrower can only be used as an MRI if it meets the Source Requirements for Borrower’s MRI.
- Clean up, debris removal, other general maintenance and work to be performed using repair escrow, cannot be considered sweat equity.
- Cash back is not permitted.
- For materials furnished, evidence of the source of funds and the market value of the material must be provided.
- For labor, verify and document that the work will be completed in a satisfactory manner. The contributory value of the labor must be evidenced by an appraiser’s estimate or a cost-estimating service.
  - For labor on existing construction, obtain an appraisal indicating the repairs or improvements to be performed (any work completed or material provided before the appraisal are not eligible).
  - For labor on proposed construction, obtain the sales contract indicating the task to be performed by the borrower during construction.

Trade Equity

- Trade equity refers to transactions where a borrower trades their real property to the seller as part of the cash investment.
- The amount of the borrower’s equity contribution is determined by:
  - Using the lesser of the Property’s appraised value or sales price; and
  - Subtracting all liens against the property being traded, along with any real estate commission.
- If the property being traded has an FHA insured mortgage, assumption processing requirements and restrictions apply.
- A residential appraisal report is required to determine the property’s value.
- A Settlement Statement or similar legal document is required to document the sale of the property.
Trade-in of a Manufactured Home

- Refers to the borrower’s sale or trade-in of another manufactured house that is NOT considered real estate to a manufactured home dealer or an independent third party.
- The installment sales contract or another agreement evidencing a transaction and value of the trade-in or sale must be verified and documented.
- Documentation to support the Trade Equity is also required.
- The net proceeds from the trade-in may be utilized as the borrower’s source of funds.
- Trade-ins cannot result in cash back to the borrower from the dealer or independent third party.

Unacceptable Sources of Funds

- Unsecured loans
- Cash advances on credit cards
- Borrowing against household goods and furniture
- Other unsecured financing

Verification of Deposit (VOD) Requirements

- VODs must be on a standard verification form and must be sent directly from the loan originator to the financial institution and returned directly from that entity.
- Faxed verification forms are acceptable if it is clear from the document that the information was sent by fax transmission directly from the source to the originator.
- The original documents must not contain any alterations, erasures, correction fluid or correction tape.
- The loan file must include legible copies of the originals.
- The VOD form must identify all of the following, when applicable:
  - The name of the financial institution
  - Account number
  - Account owner(s)
  - Type of account
  - Account open date
  - Current account balance
  - Average balance for the previous two months
  - Outstanding loans
  - If a securities account, the specific stocks/securities
  - The title, signature, and phone number of the individual completing the VOD.

Borrowers

Age of Borrower

- All borrowers must have reached the age at which the mortgage note can be legally enforced in the state or jurisdiction where the property is located.
- There is no maximum age limit for borrowers. All applicants are evaluated on their ability to meet underwriting guidelines.

Borrower Eligibility

- First time homebuyers are eligible.
• Pacific Union Financial makes mortgages to natural persons only. Borrowers are ineligible for a mortgage if they are a different type of legal entity or hold title as a different type of legal entity. These legal entities include, but are not limited to, the following:
  ▪ Corporations
  ▪ S corporations
  ▪ Borrowers with diplomatic immunity
  ▪ Inter vivos trusts
  ▪ Life estates
  ▪ Land trusts
  ▪ General partnerships
  ▪ Real estate syndications
• Additionally, loans where a custodian, agent, conservator, or guardian is signing on behalf of the borrower, non-borrowing spouse, or a vested owner are not allowed.
• HUD employee loan applications must be scored through TOTAL. The loan must be submitted to the Processing and Underwriting Division Director at the applicable Jurisdictional HOC for final underwriting approval, with the exception of non-credit qualifying streamline refines.

Co-Borrower/Cosigner

• 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 Cosigner.
• Exceptions may be granted when the party with the financial interest is a family member. Refer to Identity of Interest Transactions.
• In a community property state, the borrower’s spouse is not required to be a borrower or a cosigner. However, the mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

Cosigner

• Cosigners are liable for the loan and therefore, must sign the Note.
• Cosigners do not hold an interest in the subject property and therefore, do not sign the security instrument.
• Consignors must either be a U.S. citizen or have a principal residence in the U.S.

Co-Borrower/Occupying

• All occupying co-borrowers must take title to the property in their own name at settlement, be obligated on the Note or credit instrument and sign all security instruments.
• Refer to Multiple FHA Loans for circumstances in which a co-borrower may obtain an additional FHA-insured mortgage on a new principal residence.
• Occupying borrowers must meet FHA minimum credit score requirements.

Co-borrower/Non-Occupying

• Maximum 96.5% LTV allowed for non-occupying co-borrowers that meet FHA’s Definition of a Family Member, provided the transaction does not involve:
  ▪ A family member selling to a family member who will be a non-occupying co-borrower; or
  ▪ A transaction on a two-to-four unit property.
• Maximum 75% LTV for transactions with a non-occupying co-borrower who does NOT meet the definition of a family member.
• Income from a non-occupant co-borrower may not be used to qualify for a cash-out refinance.
• Non-occupying co-borrowers must either be a U.S. citizen or have a principal residence in the U.S.
• The occupying borrower must meet FHA minimum credit requirements.
• For manually underwritten loans, non-occupant co-borrower income may not be included in the qualifying ratios for borrowers with no credit score.
• All borrowers, including non-occupying co-borrowers, must sign the note and security instrument.

Excluded Parties

• Entities or person that are suspended, debarred, otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs are not eligible, even if the loan is manually underwritten.
• The System for Award Management (SAM) must be utilized to confirm the borrower’s eligibility for participation.
• Check the “Yes” box on form HUD 92900-LT if the borrower appears on either the LDP list or SAM.
• Participants include, but are not limited to, the following:
  ▪ Seller (except when selling a principal residence)
  ▪ Listing and selling real estate agent
  ▪ Loan originator
  ▪ Loan Processor
  ▪ Underwriter
  ▪ Appraiser
  ▪ 203(k) Consultant, if applicable
  ▪ Closing Agent
  ▪ Title Company

Identity of Interest Transactions

• Defined as transactions between parties with an existing business relationship or between family members.
• Business relationship refers to an association between individuals or companies entered into for commercial purposes.
• Identity-of-interest transactions are restricted to a maximum LTV of 85% on principal residences and when a tenant/landlord relationship exists at the time of contract execution.
• Maximum financing greater than 85% is permissible when the borrower is purchasing a principal residence under the following circumstances:
  ▪ The principal residence of another family member; or
  ▪ A property in which the borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence is required to verify occupancy.
  ▪ An employee of a builder purchasing one of the builder’s new houses or models. The builder cannot be a family member.
• If a corporation transfers an employee to another location, purchases the employee’s house and sells the house to another employee.
• A transaction involving two or more borrowers in which one or more of the borrowers will not occupy the property as a Primary Residence.

**Definition of a Family Member**

- Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:
  - Child, parent, 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/Sister or stepbrother/stepsister;
  - Aunt or Uncle;
  - Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.

**Note:**
- A fiancé is currently not considered a family member and therefore any guidance subject to a family member requirement would not permit a fiancé to be included. However, for the purpose of a cash gift, the person can be a ‘close friend’, which may include a fiancé.
- Cousins have been removed from the definition of family member.

**Military Personnel**

- Military personnel who cannot physically reside in a property because they are on Active Duty, are considered owner-occupants and are eligible for maximum financing if the following apply:
  - 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 the military. Written acknowledgement of intent to occupy is required.
- 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 is required.

**Non-Borrowing Spouse**

- In community property state, a credit report is required and the debts of the non-borrowing spouse must be included when determining qualifying ratios.
  - The FHA Authorization To Run Credit On A Non-Borrowing Spouse form must be completed and signed by the borrower and non-borrowing spouse.
  - Community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

**Note:** If the non-borrowing spouse does not have a social security number, the credit report must contain the non-borrowing spouses name, date of birth and addresses for the past two years.
• In a non-community property state, the non-borrowing spouse’s credit history is not taken into consideration.
• If necessary to perfect a valid first lien under state law, the non-borrowing spouse must execute either the security instrument or documentation indicating that they are relinquishing all rights to the property.
• Refer to Credit Report and Scores for additional requirements.

Non-U.S. Citizens

Non-U.S. citizens without lawful residency in the U.S. are not eligible for an FHA insured mortgage, including borrowers with Diplomatic Immunity.

Non-Permanent Resident Aliens

• Primary Residence only.
• The borrower must satisfy the same requirements, terms and conditions as those for U.S. citizens.
• Borrower must be eligible to work in the U.S, as evidenced by the Employment Authorization Document (EAD) issued by the USCIS.
  ▪ If the EAD 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 USCIS.
  ▪ A borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work. The EAD is not required, but documentation substantiating the refugee or asylee status must be obtained.
• Evidence of valid Social Security number is required, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD. A social security card only is not sufficient to prove immigration or work status.
• Evidence of residency and work status must be obtained through documentation from U.S Citizenship and Immigration Services (USCIS).

Social Security Number (SSN) Validation

• Validate and document the SSN for each borrower, co-borrower, or cosigner as follows:
  ▪ Enter the borrower’s name, date of birth and SSN on the FHAC Borrower/Address validation screen, ITIN’s are not eligible; and
  ▪ Review the borrower’s original pay stubs, W-2 forms, valid tax returns obtained directly from the IRS, or other documents relied upon to underwrite the mortgage; and
  ▪ Resolve any inconsistencies or multiple SSNs for individual borrowers that are revealed during mortgage processing and underwriting by using a service provider to verify the SSN with the SSA.
• A social security card only is not sufficient to prove immigration or work status.
• Refer to Non-Borrowing Spouse for additional requirements.

Cash Reserves

Refers to the sum of the borrower’s verified and documented liquid assets minus the total funds the borrower is required to pay at closing (down payment, closing costs, prepaid expenses, any...
payoffs that are a condition of loan approval, and any other expenses required to close the loan). All assets must be verified and documented.

**TOTAL Scorecard**

- Excess gift funds may be used as cash reserves on loans that receive a TOTAL Accept recommendation.
- Reserves may not include:
  - The amount of cash taken at settlement in cash-out transactions;
  - Incidental cash received at settlement in other loan transactions;
  - Equity in another property; or
  - Borrowed funds from any source.
- Three months PITI required for 3-4 unit properties.
- **Note:** See below for borrowers with 2-4 unit properties located in New Jersey.

**Manual Underwriting**

- Reserves may not include:
  - The amount of cash taken at settlement in cash-out transactions; or
  - Incidental cash reserved at settlement in other loan transactions, or
  - Gift funds in excess of the amount required for the cash investment and other expenses; or
  - Equity in another property; or
  - Borrowed funds from any source.
- Credit qualifying manually underwritten loans must meet the following reserve requirements, with the exception of transaction for borrowers with 2-4 unit properties located in New Jersey, see additional requirements below:
  - 1-2 unit properties: One month PITI required
  - 3-4 unit properties: Three months PITI required
- TOTAL Scorecard approved and manually underwritten loans for 2-4 unit properties located in New Jersey, must meet the following reserve and payment history requirements:
  - 2 units: Three months PITI required
  - 3-4 units: Six months PITI required
  - Satisfactory 12 months housing expense must be verified by credit report or canceled checks. Borrowers living rent free during the most recent 12 months are NOT eligible.

**Case Number Assignment**

- A case number can only be obtained when there is an active mortgage application for the subject borrower and property.
- FHA mortgage loan applications do not become an FHA application of record until an FHA Case Number is assigned.
- **Reminder:** The FHA Case Number is assigned to the property, not the borrower.
- The loan officer’s name and NMLS number must be provided when requesting an FHA case number. FHA Connection will not issue a case number if the loan originator’s name or NMLS number is not provided.
- Refer to the Correspondent Sponsorship and Requirements Guide for specific instructions regarding establishing new case numbers in FHA Connection.
Cancelling and Reinstating Case Numbers

- Case number cancellation request must be emailed to the FHA Resource Center at answers@hud.gov using the Case Number Cancellation Request Form. A case number will be canceled only if:
  - An appraisal has not been completed and the borrower will not close on the mortgage as an FHA-insured mortgage;
  - FHA mortgage insurance will not be sought; or
  - The appraisal has already expired.
- FHA systems will automatically cancel any uninsured FHA case number after six months, if one of the following actions is not performed as a last action:
  - Entry of appraisal information;
  - FHA issuance of a Firm Commitment;
  - FHA receipt of the insurance application and subsequent updates; or
  - A Notice of Return (NOR) has been issued and resubmissions have occurred.
- **Note:** Last action does not include updates to borrower names and/or property addresses, an appraisal update, or transmission of the UFMI.
- Requests for reinstatement of canceled case numbers must be emailed to the FHA Resource Center at answers@hud.gov using the Case Reinstatement Request Form.
- Case numbers that are automatically canceled will only be reinstated if evidence is provided that the subject loan closed prior to the case number cancellation, such as a Settlement Statement or similar legal document.
- Process case number transfers as follows:
  - If the transfer involves a rejected mortgage and Pacific Union is the original mortgagee, complete the Mortgage Credit Reject function in FHAC prior to transferring the mortgage.
  - If the case number involves a new approved Mortgagee or sponsored Third-Party Originator (TPO), the original mortgagee, its authorized agent, or sponsored TPO that is also an FHA-approved Mortgagee must complete the appropriate sections in FHAC as described in the FHAC Guide – Case Processing Support Function.

Credit / Underwriting

Loans must comply with FHA policies and the policies outlined within this document and the HUD 4000.1.

Manual Underwriting

- The underwriter must examine the borrower’s overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the borrower’s creditworthiness.
- A Tri-Merged Credit Report (TRMCR) or Residential Mortgage Credit Report (RMCR) is required.
- The same credit report and credit scores sent to TOTAL must be utilized.
- If a TRMCR or RMCR is not available, a credit history using the requirements for Non-Traditional and Insufficient Credit is required.
- If a TRMCR or RMCR generates a credit score, the credit reports must be used to evaluate the borrower’s credit history.
- In addition to meeting the general credit report requirements, the RMCR must:
  - Provide a detailed account of the borrower’s employment history;
  - Verify each borrower’s current employment and income through an interview with the borrower’s employer or explain why such an interview was not completed;
- Contain a statement attesting to the certification of employment for each borrower and the date the information was verified; and
- Report a credit history for each trade line within 90 days of the credit report for each account with a balance.
- An updated credit report or supplement is required if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.
- A credit report is not required for Non-Credit Qualifying Streamline Refinances, but may be obtained for improved pricing purposes.

**Manual Downgrades**

- Loans that are manually downgraded from a TOTAL Scorecard Approve or Accept recommendation to a “Refer” recommendation are subject to FHA’s standard documentation requirements for manually underwritten loans and are not eligible for documentation relief indicated in the AUS findings. The underwriter may not rely on the TOTAL Scorecard recommendations for creditworthiness or eligibility. The loan must be reviewed for compliance with FHA manual underwriting guidelines.
- All manually underwritten loans require Cash Reserves.
- HUD requires the underwriter to manually downgrade a TOTAL Scorecard Approve or Accept recommendation to a “Refer” recommendation and perform a complete manual underwrite based on standard FHA guidelines if credit characteristics exist as defined in the Feedback Certificate/Finding Report Risk Classification section.

**TOTAL Mortgage Scorecard**

- All transactions must be scored through TOTAL, except Streamline Refinance transactions and assumptions.
- Loans should not be accepted or denied based solely on a risk assessment generated by TOTAL.
- The appraisal must always be underwriting according to standard FHA requirements. Refer to Appraisal Requirements for additional details.
- The borrower’s total mortgage payment should include ALL of the following:
  - Principal and Interest (P&I)
  - Real estate taxes
  - Hazard Insurance
  - Flood insurance as applicable
  - MIP
  - HOA or condominium association fees or expenses
  - Ground rent
  - Special assessments
  - Payments for any acceptable secondary financing
  - Any other escrow payments.

**Feedback Certificate/Finding Report Risk Classification**

TOTAL Feedback Certificate/Finding Report will render the following recommendations:
- **Accept/Eligible**
  - The transaction is eligible for FHA’s insurance endorsement upon verification that the data entered into the TOTAL is accurate, completed and that the entire mortgage application complies with all FHA requirements.
• Verification that all supporting documentation and information entered into TOTAL is consistent with the final underwriting decision is required.

• Accept/Ineligible
  • The borrower’s credit and capacity meet the threshold for approval, but the mortgage does not fully comply with FHA’s eligibility requirements. The Feedback Certificate will identify the specific eligibly requirements that have not been met.
  • If the eligibility issues are corrected, the transaction can be rescoped.
  • If the eligibility issues cannot be corrected in the AUS, the loan must be underwritten using the requirements for the Accept recommendations downgraded to a manual underwrite guidelines below, but resolve the reason for ineligibility in accordance with FHA requirements an explanation of the resolution must be included in the remarks section of form HUD 92900-LT.

• Accept recommendations must be downgraded to a manual underwrite if:
  • The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL;
  • Additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
  • The borrower has $1,000 or more collectively in disputed derogatory credit accounts;
  • The date of the borrower’s bankruptcy discharge, as reflected on bankruptcy documents, is within two years from the date of the case number assignment date;
  • The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale), Foreclosure or Deed-in-Lieu (DIL) of foreclosure;
  • The mortgage payment history reported on the credit report used to score the application does not meet the applicable loan transaction type payment history requirements;
  • The borrower has undisclosed mortgage debts;
  • Only the non-occupying co-borrower has a credit score; or
  • Business income shows a greater than 20 % decline over the analysis period.
  • Note: Manual downgrades must comply with all requirements for manually underwritten loans.

• Refer: Manual underwriting is required.

Note: If it is determined that a loan must be downgraded to a manual underwrite, use of the AUS must cease. The loan must be comply with all manual underwriting requirements.

Tolerance Levels for Rescoring
Rescoring is required when any data elements change and/or new borrower information becomes available, except as follows:

<table>
<thead>
<tr>
<th>When Assessing....</th>
<th>Rescore is not required if</th>
</tr>
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<tbody>
<tr>
<td>Cash Reserves</td>
<td>Verified cash reserves are not less than 10% below the previously scored amount.</td>
</tr>
<tr>
<td>Income</td>
<td>Income verified is not less than 5% below the previously scored amount</td>
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</table>
Tax and Insurance Escrow
The cumulative monthly tax and insurance escrow does not in more than a 2% increase in the Total Mortgage Payment to Effective Income Ratio (PTI).

Authorized User Accounts

- Authorized user accounts must be included in the borrower’s DTI ratio, with the exception of when documentation is provided that reflects the primary account holder has made all required payments on the account during the most recent 12 months.
  - **Note:** HUD requires documentation of the required payments during the most recent 12 month period only.
- If less than three payments have been required on the account in the most recent 12 month period, the payment amount must be included in the borrower’s DTI ratio.

Back to Work – Extenuating Circumstances due to an “Economic Event”

**Effective with Case Numbers Assigned on or before September 30, 2016**

- Allows borrowers who have experienced an Economic Event (loss of employment, loss of household income, or a combination of both) to use an alternative manner for credit qualification for purchase money mortgages.
  - Their economic event must have resulted in a reduction in the borrower’s household income of 20% or more for a period of at least six months.
  - The economic event must have caused a foreclosure, short sale/pre-foreclosure sale, bankruptcy or other negative impact on credit.
- Documented evidence that the delinquencies were due to the “Economic Event” must be provided.
- Borrower must have reestablished a "Satisfactory Credit" history for at least 12 months.
- Borrower must have fully recovered from the “Economic Event”.
- Housing counseling is required, as follows:
  - The borrower must attended an approved housing counseling program at least 30 days, but no more than 180 days prior to initial application. Counseling must be performed by a HUD approved housing counseling agency, state housing finance agency, approved intermediaries or their sub-grantees.
  - Counseling may be conducted in person, via telephone, via internet, or other methods approved by HUD.
  - Upon completion of the required counseling, the borrower will be given a Counseling Certificate of Completion that must include the counselor’s handwritten signature. In instances that the counseling certificate is received electronically or via other means and does not include a counselor’s handwritten signature, the borrower must obtain the counselors signature. This may be accomplished by faxing or emailing the certificate to the counselor to obtain their handwritten signature.

Bankruptcy

**TOTAL Scorecard: Chapter 7 (Liquidation) and Chapter 13 Bankruptcy**

- Bankruptcy must be discharged at least two years from the case number assignment date.
If the bankruptcy was discharged less than two years from the case number assignment date, the loan must be downgraded to a Refer and manually underwriting.

If the credit report does not verify the discharge date or additional documentation is necessary to determine that liabilities were discharged, the bankruptcy and discharge documents must be provided.

**Manual Underwrite: Chapter 7 (Liquidation) Bankruptcy**

- Chapter 7 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage.
- If the bankruptcy was discharged at least two years prior to the case number assignment date. The borrower must have:
  - Re-established good credit; or
  - Chosen not to incur new credit obligations.
- If the bankruptcy is seasoned less than two years but no less than 12 months and the borrower:
  - Can show that the bankruptcy was caused by extenuating circumstances beyond the borrower’s control (defined as death or long-term disability of the primary wage earner) and
  - Has since exhibited a documented ability to manage his/her financial affairs in a responsible manner.
- Exceptions to the two year seasoning requirements may be permitted based on “Back to Work – Extenuating Circumstances”, see guidelines below for additional details.

**Chapter 13**

- Borrower may be eligible, if at the time of case number assignment:
  - At least 12 payments have been made under the bankruptcy plan, and
  - All payments have been satisfactory and made on time, and
  - The borrower has written permission from the bankruptcy court to enter into the mortgage transaction.
- If the credit report does not verify the discharge date or additional documentation is necessary to determine that liabilities were discharged, the bankruptcy and discharge documents must be provided.
- Documentation must be provided to evidence that the borrower’s current situation indicates that the events which led to the bankruptcy are not likely to recur.

**CAIVRS (Credit Alert Verification Reporting System)**

A CAIVRS screening must be performed on all obligors on the loan. Screening is not required on a non-borrowing spouse. If CAIVRS screening indicates an applicant is delinquent on a Federal debt or has had a claim paid on an FHA insured loan within the previous three years, the borrower is NOT eligible for a new FHA loan. The CAIVRS confirmation code must be entered on the 92900-LT.

Exceptions are allowed only under the following circumstances:

- The borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted. The borrower must prove that the loan was current at the time of the assumption.
• A divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. The borrower is not eligible if FHA paid a claim on his/her mortgage in default prior to the divorce.
• The borrower may be eligible for an FHA-insured mortgage if the property was included in a bankruptcy caused by circumstances beyond the borrower’s control, such as the death of the principal wage earner, or a serious long-term uninsured illness, and,
• Eligible Back to Work - Extenuating Circumstances, see guidelines below for additional details.

Charge Off Accounts

Refers to a borrower’s loan or debt that has been written off by the creditor:
• Charge off accounts are not required to be included in the borrower’s liabilities or debt.
• TOTAL Scorecard approved loans:
  • The presence of charge off accounts has been considered in the borrower’s credit history. A letter of explanation or supporting documentation is not required.
• TOTAL Scorecard “Refer” recommendations and manually underwritten loans:
  • Charge off accounts must be considered when underwriting the loan. The underwriter must determine if the collection account was the result of:
    ♦ The borrower’s disregard for financial obligations;
    ♦ The borrower’s inability to manage debt; or
    ♦ Extenuating circumstances.
• The borrower must provide a letter of explanation and supporting documentation consistent with the explanation, for all collection accounts.
• The underwriter must document the reasons for approving a loan when the borrower has any collection accounts.

Collection Accounts

Refers to a borrower’s loan or debt that has been submitted to a collection agency by a creditor.
• FHA does not require outstanding collection accounts to be paid off as a condition of loan approval.
• TOTAL Scorecard approved loans:
  • The presence of collection accounts has been considered in the borrower’s credit history. A letter of explanation or supporting documentation is not required.
• TOTAL Scorecard “Refer” recommendations and manually underwritten loans:
  • Collection accounts must be considered when underwriting the loan. The underwriter must determine if the collection account was the result of:
    ♦ The borrower’s disregard for financial obligations;
    ♦ The borrower’s inability to manage debt; or
    ♦ Extenuating circumstances.
• The borrower must provide a letter of explanation and supporting documentation consistent with the explanation, for all collection accounts.
• The underwriter must document the reasons for approving a loan when the borrower has any collection accounts.
• Collection accounts with an aggregate balance equal to or greater than $2,000, excluding medical collections and charge off accounts, must meet the following capacity analysis, unless excluded by state law:
Collection Account(s) Status | Capacity Analysis Requirement
--- | ---
Paid in full at closing or prior to closing | • The funds used for payment must be verified and from an acceptable source. The following documentation must be provided:
  ▪ Evidence of payment in full, if paid in paid prior; or
  ▪ The payoff statement, if paid at settlement.
Approved payment arrangements | The monthly payment amount must be verified by the creditor and included in the borrower’s debt-to-income ratio for all transactions, regardless of the TOTAL Scorecard recommendation.
No payment arrangements | 5% of each outstanding collection account balance must be included in the borrower’s debt-to-income ratio for all transactions, regardless of the TOTAL Scorecard recommendation. No documentation is required.

Credit Counseling/Payment Plans

- Guidelines apply only to manually underwritten loans. For loans that receive an approval through TOTAL Scorecard, no further documentation/evaluation is required.
- Borrowers that are participating in a consumer credit counseling program may be eligible with documentation of the following:
  ▪ One year of the pay-out period has elapsed under the plan.
  ▪ The borrower’s payment history 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.

Credit Analysis

- Loans submitted to TOTAL Scorecard must receive an Approve/Eligible or Accept/Eligible recommendation.
- Loans that receive a Refer/Eligible must be manually downgraded and underwritten.

Credit Report Inquiries

- All credit report inquiries must be reviewed to ensure that all debts, including any new debt payment resulting from material inquiries listed on the credit report, are used to calculate the DTI ratio.
  ▪ Material inquiries refer to inquiries that 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.
- Inquires must also be reviewed to determine if any recent debts were incurred to obtain any part of the borrower’s required funds to close.

Credit Report and Scores

- A credit report is required for each borrower who will be obligated on the mortgage note, with the exception of Non-Credit Qualifying Streamline Refinance transactions.
  ▪ A joint credit report may be obtained for individuals with joint accounts.
• A credit report is required for a non-borrowing spouse who resides in a community property state, or if the property is located in a community property state.
• The credit report or separate documentation must provide evidence that the non-borrowing spouse’s SSN, if applicable, was matched with the SSA records or provide a statement that the non-borrowing spouse does not have a SSN.
• Credit reports must contain information from at least two credit repositories and include the following:
  • The name of the mortgagee ordering the report;
  • The name, address, and telephone number of the consumer reporting agency;
  • The name and SSN of each borrower; and
  • The primary repository from which any particular information was pulled, for each account list.
  - Where a SSN does not exist for a non-borrowing spouse, the credit report must contain, at minimum, the non-borrowing spouse’s full name, date of birth, and previous addresses for the last two years.
• A new credit report and rescore through TOTAL must be obtained if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

**Credit Score Methodology**

The following criteria may be used to determine each individual borrower’s Minimum Decision Credit Score (MDCS) using the "middle/lower" score method.
• If there are three valid credit scores for a borrower, the middle score (numerical middle of the three scores) is the MDCS.
• If there are three valid scores for a borrower but two of the scores are the same, the duplicate score is the MDCS.
• If there are two valid scores for a borrower, the lower of the two scores is the MDCS.
• If there is one valid score for a borrower, that score is the MDCS.

**Loan Decision Score Selection**

• After selecting the appropriate MDCS for each borrower, a MDCS must be determined as follows:
  - One borrower: The selected MDCS must be used.
  - More than one borrower: The lowest selected MDCS among all borrowers must be used.
  - More than one borrower and one or more of the borrowers does not have a credit score (non-traditional or insufficient credit), the lowest MDCS of all the borrower(s) with a credit score must be used.
• The borrower is not eligible for a FHA insured mortgage if the MDCS is less than 500.

**Disputed Accounts**

**Disputed Derogatory Credit Accounts**

• Refers to disputed charge-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 ratio. If a monthly payment is not shown on the credit report, calculate the payment as follows:
For installment debt, use the monthly payment amount shown on the loan agreement or the most recent monthly statement.

For revolving debt, use the monthly payment amount shown on the current account statement or 5% of the outstanding balance.

Exclusions from this cumulative balance include disputed:

- Medical accounts; and
- Derogatory credit resulting from identity theft, credit card theft or unauthorized use, documented with a copy of the police report or other documentation from the creditor to support the status of the account(s); and
- Disputed derogatory credit accounts of a non-borrowing spouse in a community property state.

**TOTAL Scorecard**

If the credit report utilized by TOTAL indicates that the borrower has $1,000 or more collectively in disputed derogatory credit accounts, the loan must be downgraded to a Refer and manually underwritten.

**Manual Underwriting**

The borrower must provide a letter of explanation and supporting documentation consistent with the explanation, for all disputed derogatory credit accounts.

**Non-Derogatory Disputed Credit Accounts and Disputed Accounts Not Indicated on the Credit Report**

- 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.
  - Disputed accounts that are current and paid as agreed.

**TOTAL Scorecard**

- Non-derogatory disputed accounts are excluded from the $1,000 cumulative balance limit described above.
- A manual downgrade to a Refer is not required when disputed accounts are non-derogatory or not indicated on the credit report.
- The loan must be analyzed to determine the effect of the disputed accounts on the borrower’s ability to repay the mortgage.
- If the dispute results in the borrower’s monthly debt payments used to determine the DTI being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.

**Manual Underwriting**

- If a borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the effect of the disputed account(s) on the borrower’s ability to repay the loan must be analyzed.
- If the dispute results in the borrower’s monthly debt payments used in calculating the DTI ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payment amount.
Federal Debt

- Failure to make payments on a delinquent federal debt must be considered when analyzing the borrower’s creditworthiness. The underwriter must provide justification as to why the previous failure does not represent a risk of mortgage default.
- Borrowers with delinquent federal non-tax debt are ineligible, including deficiency judgements and other debt associated with past FHA-insured mortgages.
- Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed and at least three months scheduled payments have been made timely.
  - Documentation from the IRS evidencing the repayment agreement and verification of payments made, is required.
  - The borrower cannot prepay scheduled payments in order to meet this requirement.
  - The monthly scheduled payment amount must be included in the borrower’s DTI.
  - If no payment arrangements have been made the tax lien must be paid in full.
  - The lien holder must subordinate the tax lien to the FHA-insured mortgage.
- Borrowers with verified delinquent federal non-tax debt reported on a public record, credit report or equivalent, CAIVRS, or an equivalent system are ineligible for an FHA-insured mortgage until the federal non-tax debt is resolved in accordance with the Debt Collection Improvement Act.
  - The borrower is ineligible if currently delinquent on an FHA-insured mortgage, the delinquency has to be resolved.
  - The validity and delinquency status of the debt must be verified by contacting the creditor to whom the debt is owed.
  - If the debt was identified through CAIVRS, the creditor contact number and debt reference number provided on the CAIVRS report must be used to verify the validity of the debt.
  - If the information in CAIVRS is no longer valid or the debt is resolved in accordance with the Debt Collection Improvement Act, the loan may continue to be processed.
  - The loan may not be denied solely on the basis of CAIVRS information that has not been verified.
  - Documentation from the creditor agency is required to support the verification and resolution of the federal non-tax debt.
  - For debt reported through CAIVRS, a clear CAIVRS report is required.

Foreclosure/Deed-in-Lieu (DIL) of Foreclosure

- A borrower is generally not eligible for a new FHA-insured mortgage if the borrower has a foreclosure or DIL of foreclosure in the three years period prior to the case number assignment date.
- The three year period begins on the date of DIL or the date the borrower transferred ownership of the property to the foreclosing entity/designee.
- If the credit report does not indicate the date of the foreclosure or DIL, the settlement statement, deed or other legal documents evidencing the date of the property must be obtained.
TOTAL Scorecard

If the short sale occurred less than three years from the case number assignment date, and was the result of an extenuating circumstance, the mortgage must be downgraded to a Refer and manually underwritten.

Manual Underwriting

- Exceptions are possible if the foreclosure was the result of documented extenuating circumstances that were beyond the borrower’s control, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the foreclosure.
- Exceptions may be permitted based on “Back to Work – Extenuating Circumstances”. See guidelines below for additional details.
- Divorce is not considered an extenuating circumstance; however an exception may be granted where a borrower’s loan was current at the time of the divorce, the ex-spouse received the property, and the loan was later foreclosed.
- The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

Judgments

- Refers to any debt or monetary liability of the borrower and the borrower’s spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.
- Court ordered judgments must be resolved or paid off prior to or at closing, with the exception of a court ordered judgment with payment arrangements.
- Payment in full is not required if payment arrangements have been made with the creditor of a court ordered judgment, three months scheduled payments were made prior to loan approval and the judgment will not supersede the FHA-insured mortgage lien.
  - Prepayment of the scheduled payments in order to meet the minimum three month requirement is not allowed. A copy of the agreement and evidence that payments were made on time in accordance to the agreement are required.
  - The verified payment must be included in the DTI ratio.
  - The following documentation is required:
    - Evidence of payment in full, if paid prior to settlement;
    - The payoff statement, if paid at settlement; or
    - The payment arrangement with creditor, if paid to or at settlement, and a subordination agreement for any liens existing on title.
- Note: In a community property state, non-purchasing spouse judgments must be paid in full, or meet the payment arrangement requirements detailed above.

Modified Mortgages

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

Mortgage/Rental Payment History

- A mortgage/rental payment is considered delinquent if not paid within the month due.
New Jersey borrowers securing a 2-4 unit dwelling must provide 12 months canceled checks if mortgage/rental history is not provided on the credit report. Borrower’s living rent free during the most recent 12 months are NOT eligible.

Refer to the applicable loan transaction topic for additional requirements.

### Multiple FHA Loans

A borrower may have more than one FHA loan only under the following circumstances:

<table>
<thead>
<tr>
<th>Policy Exceptions</th>
<th>Eligibility Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocation</td>
<td>Relocating or have relocated for an employment related reason; and Establishing or have established a new principal residence in an area more than 100 miles from the borrower’s current principal residence.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> If the borrower moves back to the original area, the borrower is not required to live in the original house and may obtain a new FHA-insured mortgage on a new principal residence, provided the relocation meets the two requirements above.</td>
</tr>
<tr>
<td>Increase in family size</td>
<td>The borrower can provided satisfactory evidence of an increase in legal dependents and the property’s inability to meet current needs; and The 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.</td>
</tr>
<tr>
<td>Vacating a jointly owned property</td>
<td>If the borrower is vacating a jointly owned property (with no intent to return) and the existing principal residence which will remain occupied by a co-borrower.</td>
</tr>
<tr>
<td>Non-occupying co-borrower</td>
<td>If a non-occupying co-borrower on an existing FHA-insured mortgage qualifies for an FHA-insured mortgage on a new property to be their own principal residence.</td>
</tr>
</tbody>
</table>

- FHA will not insure a mortgage if it is determined that the transaction is being used as a vehicle for obtaining an investment property, even if the property to be insured will be the only one owned using an FHA-insured loan.
- Properties previously acquired as an investment property are not subject to these restrictions.
- The URLA must indicate that the property will be the borrower’s principal residence and certify to the fact on form HUD 92900-A.

### Non-Traditional and Insufficient Credit

- Non-traditional credit must be documented using a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the borrower’s credit history.
- Direct verifications may be obtained only when a NTMCR is impractical or the service is not available.
- Non-traditional credit may be used when the borrower does not have the type of credit that appears on a traditional credit report or to supplement an insufficient number of trade items reported to generate a credit score.
- NTMCR’s must verify the following information for all non-traditional credit references:
  - The existence of the credit providers;
  - That the credit was actually extended to the borrower; and
• The creditor has a published address or telephone number.
• Documentation of the existence of the credit provider and that the provider extended the borrower credit must be obtained as follows:
  • The credit provider must be verified by reviewing public records from the state, county, or city or other documents providing a similar level of objective information.
  • To verify credit information:
    ♦ Use a published address or telephone number for the credit provider and not rely solely on information provided by the borrower; and
    ♦ Obtain the most recent 12 months of canceled checks or the equivalent proof of payment, demonstrating the timing of payment to the credit provider.
  • 12 months rental payment history from the appropriate rental management company, the most recent 12 months of canceled checks, or equivalent proof of rental payment is required; provided the borrowers is not renting from a family member.
• NTMCR must not include subjective statements such as “satisfactory” or “acceptable” must be formatted in a similar fashion to traditional reference and provide the:
  • Creditor’s name;
  • Date of opening;
  • High credit;
  • Current status of the account;
  • 12 month payment history (Effective for case numbers assigned on or after June 30, 2016);
  • Required monthly payment;
  • Unpaid balance; and
  • Payment history in the delinquency categories (for example, 0x30 and 0x60).
• Non-traditional credit must include three credit references from the list below:
  • At least one credit reference from Group I:
    ♦ Rental housing payments;
    ♦ Telephone service; or
    ♦ Utility company reference (if not included in the rental housing payment), including gas, electric, water, television service, and internet service.
  • If all three credit references are not obtained from Group I, the remaining credit references may be obtained from the following Group II sources of unreported recurring debts:
    ♦ Medical, life, auto or renters insurance coverage that is not payroll deducted.
    ♦ Payment to child care providers made to a business providing such services.
    ♦ School tuition
    ♦ Retail stores credit cards (for example; such as department, furniture, appliance and specialty stores).
    ♦ Rent-to-own (for example; furniture, appliances)
    ♦ Payment of any part of medical bills not covered by insurance
    ♦ Documented 12 month history of saving by regular deposits resulting in an increasing balance to the account that:
      • Were made at least quarterly;
      • Were not payroll deducted; and
      • Caused no NSF activity
    ♦ Automobile leases
    ♦ Personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments.
Evaluating Non-Traditional Credit and Insufficient Credit

- At least a 12 month payment history is required and must meet the following requirements:
  - No history of delinquency on rental housing payments;
  - No more than one 30-day delinquency on payments due to other creditors; and
  - No collection accounts/court records filed within the last 12 months (other than medical and/or identity theft).
- Ratios may not exceed 31%/43% and must be computed only on those borrowers occupying the property and obligated on the loan.
- Ratio increases based on compensating factors are not allowed.
- See Cash Reserves for additional requirements.

Restructured Mortgages

- A restructured mortgage is one in which the original terms have been changed, including through the origination of a new mortgage, resulting in any of the following:
  - Forgiveness of principal and/or interest on either the first or second mortgage.
  - Application of a principal curtailment by or on behalf of the investor to stimulate principal forgiveness.
  - Conversion of any portion of the original mortgage debt to a mortgage that is fully forgiven over a period of time or due upon the sale of the subject property (a “soft” subordinate mortgage).
  - Conversion of any portion of the original mortgage debt from secured to unsecured.
- A restructured mortgage may be identified as follows:
  - The borrowers tax return (if obtained) reflects income from a 1099C from the mortgage lender, mortgage insurance company or third party investor, or
  - The payoff amount is significantly less than the credit report balance or the current monthly payment disclosed on the 1003 varies from the payment reported on the credit report, or
  - The borrower’s credit report reflects verbiage such as “Settled for less than amount owed,” or “Paid In Full, not as agreed.”
- Non-Pacific Union Financial serviced loans must meet agency requirements and must have a 24 month mortgage payment history immediately after the loan was restructured.
  - In addition to meeting the agency requirements during the 6-12 month payment period, no late payments are allowed during the 13-24 month period immediately after the loan was restructured.
  - Note: A 24 month payment history is not required if Pacific Union to Pacific Union refinance transaction.
- A restructured mortgage may not be accurately reflected on the borrower’s credit report. If it is known or suspected that the borrower had a previous restructure, the credit report must be updated and the loan rescored and resubmitted to TOTAL Scorecard.
- A restructured mortgage is sometimes referred to as a “short pay loan”, a “short pay refinance” or a “short refinance”.
- A copy of the restructured note must be in the loan file.
• See Modified Mortgages, if applicable.

Short Sale /Pre-Foreclosure

• Refers to the sale of real estate that generate proceeds that are less than the amount owed on the property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.
• If the credit report does not indicate the date of the short sale, the settlement statement, deed or other legal documents evidencing the date of the property must be obtained.

TOTAL Scorecard

• A borrower is considered eligible if the short sale occurred three years prior to the case number assignment date. The three year period begins on the date of transfer of title by short sale.
• If the short sale occurred less than three years from the case number assignment date, and was the result of an extenuating circumstance, the mortgage must be downgraded to a Refer and manually underwritten.

Manual Underwriting

• A borrower is considered eligible for a new FHA-insured mortgage if from the case number assignment date for the new mortgage, all the following applied:
  ▪ All mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale, and
  ▪ All installment debt payments for the same time period were also made within the month due.
• Exceptions to the three year seasoning requirements may be made if the default was due to circumstances beyond the borrower’s control, such as serious illness or death of a primary wage earner and the borrower has re-established good credit since the short sale. The loan file must include the borrower’s explanation of the circumstances surrounding the event and documentation verifying that the circumstances were beyond the borrower’s control are required.
• Divorce is not considered an extenuating circumstance. However, an exception may be granted when the borrower’s mortgage was current at the time of the divorce, the ex-spouse received the property and there was a subsequent short sale.
• The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

Undisclosed Debt

Undisclosed Mortgage Debt (TOTAL)

• When an existing debt or obligation that is secured by a mortgage is not listed on the credit report and not considered by the AUS is revealed during the application process, a verification of mortgage must be obtained 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 mortgage payments.

**Undisclosed Debt Other Than a Mortgage (TOTAL)**

• When a debt or obligation (other than a Mortgage) is not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process:
  ▪ Verify the actual monthly payment amount;
  ▪ Re-submit the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower’s debt increased by more than $100 per month; and
  ▪ Determine that any funds borrowed were not/will not be used for the Borrower’s MRI.

**Undisclosed Debt and Inquires (Manual)**

• When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report:
  ▪ Verify the actual monthly payment amount;
  ▪ Include the payment amount in the agreement 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 MRI.
• A written explanation for all credit inquiries made within the last 90 days is required.
• All undisclosed debt must be documented and included in the credit analysis.

**Collateral**

**Appraisal Requirements**

• A new appraisal is required for each purchase and refinance case number assignment, with the exception of REO sales.
• An appraisal performed under another case number cannot be reused, even if the prior appraisal has not expired (not more than 120 days old).
• **Effective for case number assignments on or after June 27, 2016:**
  ▪ Appraisals for new originations must be uploaded to the Electronic Appraisal Delivery (EAD) portal, with the exception of appraisals performed on behalf of FHA or its M and M contractor for use in determining the listing price of a HUD REO property.
  ▪ Upon successfully uploading the appraisal to the EAD portal, FHAC will pull EAD appraisal data and prefill certain data fields on the Appraisal Logging screen. EAD portal and FHAC shared key data elements include:
    ♦ FHA Case Number;
    ♦ Lender Loan Number;
    ♦ Lender Associated with FHA Case Number;
    ♦ FHA-approved Appraiser Validation and Status; and
    ♦ Property-specific Appraisal Data Submitted via EAD.
  ▪ Appraisals submitted to FHA via the EAD portal will become the appraisal of record for the transaction. Subsequent updates to the appraisal must be submitted through the EAD portal.
The EAD portal will maintain appraisal data and reports for 90 days from the date of submission.

Appraisal transfers:
- Transferred case numbers will require the appraisal to be uploaded to EAD by the new lender.
- Transferred appraisals must be in XML format in order to be submitted to EAD.
- The appraisal cannot be used without a successful submission and SSR by Pacific Union.

Appraisal form information, instructions, data format requirements, and technical information may be obtained from the following websites:
- [HUD Electronic Appraisal Delivery (EAD) Portal Resource Webpage](https://www.ead.gov)
- [FHA SFH Appraisal Report and Data Delivery Guide](https://www.hud.gov)

The Correspondent is responsible for ordering the appraisal PRIOR to delivery of the loan to Pacific Union Financial for Eligibility Review.

Appraisers must comply with the Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule, when appraising any property as security for FHA-insured financing.

- The Mortgagee must be listed on the appraisal report as an Intended User of the appraisal.
- The appraiser must be listed on the [FHA Appraiser Roster](https://www.hud.gov) and is qualified and knowledgeable in the specific market area in which the property is located.
- The appraiser must be provided the FHA case number, a complete copy of the subject property sales contract including all addendums, land lease, surveys and other legal documents necessary to analyze the property.
- The appraiser must also be provided all known information regarding any environmental hazard on the subject property, or in the vicinity of the property, whether obtained from the borrower, real estate broker or any other party to the transaction.
- The appraiser must identify readily observable defective conditions such as defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.
- If defective conditions are identified and can be cured in compliance with HUD’s MPR, the appraiser should include an estimated cost to cure.
- If the appraiser cannot determine that a property meets MPR or MPS, an inspection by a qualified individual or entity may be obtained at the Underwriters discretion; with the exception of the following conditions that require an inspection:
  - Standing water against the foundation and/or excessively damp basements;
  - Hazardous materials on the site or within the improvements;
  - Faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
  - Evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
  - Evidence of possible pest infestation;
  - Leaking or worn-out roofs; or
  - Any condition that in the professional judgement of the appraiser warrants inspection.
Note: The appraiser may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

- Evaluated in accordance with Defective Conditions to determine if the property is eligible for an FHA insured mortgage.
- The appraiser must provide photographic documentation of the defective conditions noted in the appraisal report.
- The underwriter has the responsibility of ensuring the quality of the appraisal report and is allowed to contact the appraiser to request clarifications and/or discuss components of the appraisal that influence its quality. The underwriter may only discuss components of an appraisal with the appraiser and the borrower.

Age of Appraisal

- Appraisal reports are valid for 120 days. The validity period may be extended for 30 days if the following apply:
  - The loan is approved or HUD issued a Firm Commitment before the expiration of the original appraisal; or
  - The borrower signed a valid sales contract prior to the expiration of the original appraisal.

Appraisal Effective Date

- The appraisal effective date cannot be before the FHA case number assignment date unless the Underwriter certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by a FHA Roster Appraiser.
  - The appraisal must be performed in accordance with FHA appraisal reporting instructions as detailed in this 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.
  - The intended user must be indicated on the appraisal report.
  - Documentation substantiating conversion of the mortgage to FHA must be retained in the case binder.

Appraisal Updates

An appraisal update is valid for a period of 240 days after the effective date of the original appraisal and must meet the following requirements:

- The Mortgagee must be listed as the Intended User of the original appraisal or must have received permission form the original client and the appraiser. An appraisal update may be used only if:
  - It is performed by the FHA appraiser who performed the original appraisal, who is currently in good standing on the FHA Appraiser Roster;
  - 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 appraisal was ordered by the Mortgagee and completed by the appraiser prior to the expiration of the initial 120 day period; and
The original appraisal report was not previously updated.

**Appraisal Transfers**
- At the borrower’s request, an appraisal must be transferred to a second Mortgagee within five business days, if the cost of the original appraisal has been paid.
  - **Note:** The appraiser is not required to provide the appraisal to the new Mortgagee.
  - The client name on the appraisal does not need to reflect the new Mortgagee, the appraisal cannot be re-addressed.
- An appraisal may be transferred from another lender to Pacific Union Financial. Only the appraisal is assignable. The appraisal must be evaluated by a Pacific Union Financial underwriter. The transferred appraisal:
  - May not be expired.
  - May not have been used to complete another transaction that has closed.
  - A request for appraiser to re-address the appraisal must not be submitted.
  - If deficiencies are found, a new appraisal must be ordered.
- When an existing appraisal is used for a different borrower, the appraisal fees must be collected from the new borrower and refunded to the original borrower.
- If a case transfer is involved, the new Mortgagee must enter the borrower’s information in FHAC. The appraisal fees must be collected from the borrower and sent to the original mortgagee. It will be the original mortgagee’s responsibility to refund the original borrower.

**Second Appraisal**
- With the exception of property flipping requirements, a second or subsequent appraisal or Automated Valuation Model (AVM) is only allowed if a DE underwriter determines that the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency.
- The second appraisal must be relied on for value. An additional appraisal may not be ordered to achieve an increase in value and/or to eliminate or reduce deficiencies and/or repairs required. The reason for the additional appraisal must be clearly noted in the mortgage file.
  - A review must be completed based on standard appraisal, quality control and underwriting guideline processes. The most reliable appraisal must be selected, rather than the appraisal that states the highest value.
  - Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. 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
    - Fraudulent statements or conclusions when the appraiser had 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.
- Documentation verifying why the second appraisal was ordered and all the appraisal reports must be retained in the case binder.
- A second appraisal may be ordered to replace a transferred appraisal if the following circumstances apply:
- The transferred appraisal contains material deficiencies; or
- The appraiser performing the first appraisal is a prohibited appraiser; or
- The existing mortgage company failed to provide a copy of the appraisal in a timely manner and the failure would have caused a delay in closing and harm to the Borrower that may include loss of the interest rate lock, violation of the purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.
- **Note:** If received, the first appraisal must be added to the case binder.

**Borrower Acknowledgement**

- All files must include one of the following acknowledgements from the borrower:
  - Receipt of the appraisal at least three days prior to closing.
  - Waiver of right to receive appraisal within three days prior to closing.

**Escrow Holdbacks**

- Non-HUD REO: Refer to the Escrow Holdback Policy for detailed guidelines.
- HUD REO: Refer to the HUD REO Loan Program Guide for detailed guidelines.

**Leaseholds**

Leaseholds are allowed for all transaction types and must meet all applicable FHA requirements.

**Manufactured Homes**

- Permitted, with the exception of 203(h) loans. Refer to the Manufactured Home Loan Program Guide for applicable guidelines and state restrictions.
- **Note:** Modular homes are eligible for financing and must follow standard site built housing requirements.

**Minimum Property Requirements (MPR)/ Minimum Property Standards (MPS)**

**Access to Property**

- Confirm that the property has a 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 protected by permanent recorded Easements.
- 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.

**Abandoned Gas and Oil Well**

- 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 assessed the risk, and that the appropriate state authorities have concurred on clearance recommendations.
Chain of Title

- 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 restrictions on Property Flipping.

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 and Safety Hazards

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.

Externalities

Externalities refer to the following off-site conditions that affect a Property’s value.

- The appraiser must report the following:
  - The presence of the externalities;
  - How they 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 within the approaches to value.
- The Underwriter must review the externalities details and determine property eligibility.
- Externalities include:
  - Heavy Traffic: The Appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.
  - Airport Noise and Hazards: 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.
  - Special Airport Hazards: 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 Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.
  - Proximity to High Pressure Gas Lines: The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid
petroleum pipelines or other volatile and explosive products, both aboveground and subsurface.
- The marketability of the Property based on the appraiser’s analysis must be included in the report.
- The Appraiser must notify the Mortgagee 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:** Confirmation that any overhead electric power transmission lines do not pass directly over the dwelling, structure or related property improvement (including pools) is required.
  - If the power line passes over the property, the property is ineligible until the power line is relocated.
  - The residential service drop line may not pass directly over any pool, spa or water feature.
  - If the property or improvement are located within the easement area, obtain 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.

- **Smoke, Fumes and Offensive or Noxious Odors:** The Appraiser must document excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.
  - The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

- **Stationary Storage Tanks:** If the subject property line 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, the property is ineligible for FHA insurance, and the Appraiser must provide notification of the deficiency of MPR or MPS.
  - This includes domestic and commercial uses as well as automotive service station tanks.

**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 that is not fully owned by the Borrower.
- Review the terms of the lease on any equipment to ensure they do not contain any

**Onsite Hazards and Nuisances**

- Onsite 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.
- Require corrective work to mitigate potential adverse effects from any onsite hazards or nuisances reported by the appraiser.
- The Appraiser must also provide photographs of potential problems or issues to assist the Underwriter with understanding the problem.
Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

**Methamphetamine Contamination**

If upon appraisal review or if the Appraiser identifies the property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the property is ineligible due to this environmental hazard until the property is certified safe for habitation.

**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.

**Repair Requirements**

Determine which repairs must be made for an existing Property to be eligible for FHA-insured financing.

**Requirements for Living 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 living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
  - Adequate space for healthful and comfortable living conditions;
  - Heating adequate for healthful and comfortable living conditions;
  - Domestic hot water; and
  - Electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.
- Only appliances (built-in and/or stand alone) that are to remain and that contribute to the market value opinion must be operational.

**Roof Covering**

- The appraiser must determine that the roof covering prevents the entrance of moisture and provides reasonable future utility, durability and economy of maintenance and has a remaining economic life of at least two years.
- 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; and
- Identify the roofing materials type and condition of the roof.
- Make the appraisal subject to inspection by a professional roofer if the remaining economic life is less than two years.
- If the appraiser was unable to view the roof, the appraisal must include an explanation of why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

**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 Onsite Sewage Disposal Systems are acceptable provided they are functioning properly and meet the requirements of the local health department.
- When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, the Mortgagee must confirm connection to an off-site sewage system.
- When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, the Mortgagee must reject the Property unless the Onsite 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**
- 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 and make the appraisal subject to inspection by a qualified pest control specialist.
  - 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 the property is free of wood destroying insects and organisms.
  - If applicable, the National Pest Management Association (NPMA) Form NPMA-33 or the state mandated infestation report is required.

**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 record.

**Water Supply Systems**
- Public Water Supply System
Confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

- Individual Residential Water Purification Systems
  - An individual residential water purification system refers to equipment, either point-of-entry or point-of-use, installed on properties that otherwise do not have access to a continuous supply of safe and potable water. Water purification systems differ from water softener systems, in that water softeners typically are used only to soften safe and potable hard water.
  - If a property has a water purification or softener system, water testing may be obtained to confirm whether the purpose of the system is for water softening/personal preference or to provide a continuous supply of safe and potable water.
  - If water testing is not completed on properties with a water purification or softener system OR the results of water testing confirm that the property does not have access to a continuous supply of safe and potable water, the following requirements must be met:
    - The existing or acquired water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local and state health authority. The certification obtained from the local or state health authority must certify that:
      - A point-of-entry or point-of-use water purification system is on the property. If the system employs point-of-use equipment, the purification system must be employed on each water supply source (faucet) serving the property. Where point-of-entry systems are used, separate water supply systems carrying untreated water for flushing toilets may be constructed.
      - The system is sufficient to ensure an uninterrupted supply of safe and potable water adequate to meet household needs.
      - The water supply, when treated by the equipment, meets the requirements of the local or state health authority, and has been determined to meet local or state quality standards for drinking water. If neither state nor local standards are applicable, then quality must be determined in accordance with standards set by the Environmental Protection Agency (EPA) pursuant to the Safe Drinking Act in 40 CFR Parts 141 and 142.
      - A plan exists that provides for the monitoring, servicing, maintenance, and replacement of the water equipment, and the plan meets the service contract requirements.
  - A Borrower Notice must accompany the sales contract, acknowledging the property has a hazardous water supply that requires treatment in order to remain safe and acceptable for human consumption. The notification must also
    - Identify specific contaminants in the water supply serving the property, and the related health hazard arising from the presence of those contaminants.
    - Provide details regarding the cost involved in the maintenance of the system, in the form of an estimate of the maintenance and replacement costs of the equipment necessary to ensure continuous safe drinking water.
Note: If a Borrower Notice is not provided when the sales contract is executed, an addendum must be executed after the information is provided to the prospective borrower and after they have acknowledged receipt of the disclosures.

- At the time the application is signed, the borrower must sign the **Borrower’s Certification of Water Purification System** disclosure acknowledging that the property has a water purification system and the service contract requirement.
- Prior to closing, the borrower must enter into a service contract with an organization or individual specifically approved by the local or state health authority to carry out the provisions of the required plan for the servicing, maintenance, repair, and replacement of the water purification equipment.
  - Refer to Handbook 4000.1 for “Approved Plan for Individual Residential Water Purification Systems” requirements.
- At closing, the borrower must sign a **Water Purification Equipment Rider**.
  - An escrow account must be established and maintained to ensure proper servicing, maintenance, repair, and replacement of the water purification equipment.

### Individual Water Supply Systems (Wells)

- Ensure that the water quality meets the requirements of the health authority with jurisdiction.
- A water quality test is required ONLY when the appraiser reports observable deficiencies or if any of the following apply:
  - The water supply relies upon a water purification system due to the presence of contaminants;
  - Corrosion of pipes (plumbing);
  - Areas of intensive agricultural uses within one quarter mile;
  - Coal mining or gas drilling operations within one quarter mile;
  - A dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
  - An unusually objectionable taste, smell, or appearance of well water.
- If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.
- Soil poisoning is an unacceptable method for treating termites unless the Mortgagor obtains satisfactory assurance that the treatment will not endanger the quality of the water supply.
- Refer to the HUD Handbook 4000.1 for following details:
  - The minimum distance required between wells and sources of pollution; and
  - The minimum requirements for water wells; and
  - The analysis and reporting requirements.
- The Appraiser must also 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, property lines, septic tanks, drain fields, or building structures but may provide estimated distances where they are comfortable doing so.
  - When available, the Appraiser will provide the homeowner or Mortgagor 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
Must serve existing properties that cannot feasibly be connected to an acceptable public or Community Water supply System;

Must be capable of providing a continuous supply of water so that each existing property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);

Must provide safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA’s National Interim Primary Drinking Water Regulations;

Must have 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 service to the other Properties; and

Serves no more than four living units or Properties. Refer to the HUD Handbook 4000.1 for provision that must be reflected in any acceptable shared well agreement.

Onsite Sewage Disposal Systems:

An onsite 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 Underwriter if the property is not served by an off-site sewer system and any living unit is not provided with an Onsite 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 require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

Zoning

FHA requires the property to comply with all applicable zoning ordinances.

If the existing property does not comply with all 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 effects that the non-conforming use has on the property’s value and marketability, and state whether the property may be legally rebuilt if destroyed.

Mixed Use Properties

Mixed-use properties are suitable for a combination of uses including any commercial, residential, retail, office or parking space.

Mixed use one-to-four unit properties are eligible if the following requirements are met:

- A minimum of 51% of the entire building square footage is for residential use, stated on the appraisal; and
• The commercial use will not affect the health and safety of the occupants of the residential property; and
• The appraiser must report whether the non-residential usage is legal and in compliance with current zoning requirements.

Storage areas or similar spaces that are integral parts of the non-residential portion must be including in the calculation of the non-residential area.

New Construction

• New construction is defined as a property that has existed for less than one year from the date of the issuance of the Certificate of Occupancy (CO) or equivalent, is 100% complete and has never been occupied.
• Pre-Approval refers to properties that are less than one year old and meet one of the following requirements:
  ▪ The property was appraised and Form HUD-92800-5B, Conditional Commitment Direct Endorsement Statement of Appraised Value, was issued before construction started;
  ▪ A building permit or its equivalent has been issued by a local jurisdiction (not applicable to Manufactured Housing); or
  ▪ An Early Start Letter was issued.
• Early Start Letter refers to the document issued by the Mortgagee in response to a builder’s request to start construction before the appraisal is completed.
  ▪ The Early Start Letter indicates the Mortgagee’s approval of the property before issuance of Form HUD-92800.5B and without affecting the maximum mortgage amount.
  ▪ The Mortgagee may issue the Early Start Letter if local jurisdiction 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 borrower’s dwelling securing the FHA-insured mortgage. The plan must be a HUD-accepted insured ten-year protection plan.
• Properties that are existing for less than one year are limited to a 90% LTV unless they meet the Pre-Approval requirements or are covered with a HUD-accepted insured ten-year protection plan.
• For an LTV of 90% or less, the following must be obtained:
  ▪ Form HUD-92541, Builder’s Certification of Plans, Specifications, and Site;
  ▪ Final inspection or appraisal,
  ▪ Wood Infestation Report, unless the property is located in an area of no to slight infestation as indicated on HUD’s Termite Treatment Exception Areas list.
  ▪ Form HUD-NPMA-99-A, Subterranean Termite Protection Builder’s Guarantee, is required. 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 the builder notes on the form that the construction is masonry, steel or concrete.
• The Appraiser must be provided a fully executed Form HUD-92541, signed and dated no more than 30 days prior to the date the appraisal was ordered.
• The property must comply with the applicable minimum property requirements and minimum property standards by construction status, including but not limited to the 2009 International Energy Conservation Code, formerly known as the Model Energy Code.
- HUD 92900-A, HUD/VA Addendum to Uniform Residential Loan Application, must be used to certify that the property is 100% complete and meets HUD’s MPR and MPS.
- Property tax estimates must be based on the land and improvements.
- **Note:** FHA treats the sale of an occupied property that has been completed less than one year from the issuance of the CO or equivalent as an existing property.

**Properties Impacted by a Federal Disaster**

If the Federal Emergency Management Agency (FEMA) declares a major disaster, or when the lender becomes aware of a major disaster, appropriate steps must be taken to determine the condition of a property located in the disaster area. If the property appraisal was completed prior to the disaster, Pacific Union Financial will require an inspection of the property. Refer to the following for detailed requirements:
- Refer to the Disaster Area section in the Correspondent Lending Guide.

**Property Flipping**

- Refers to the purchase and subsequent resale of a property in a short period of time. Property flipping is indicative of a practice whereby a recently acquired property is resold for a considerable profit with an artificially inflated value. Only owners of record may sell properties that will be financed using FHA-insured mortgages; and
- Property eligibility is determined by the time that has elapsed between the date the seller acquired title to the property and the date of execution of the sales contract.
  - The seller's date of acquisition is defined as the date that seller acquired legal ownership of the property.
  - The resale date is defined as the sale of execution of the sales contract by all parties.
- A property that is being re-sold 90 or fewer days from the seller’s date of acquisition is not eligible.
- Refer to Resales Occurring Between 91 Days and 180 Days After Acquisition for appraisal and documentation requirements.
- A 12-month chain of title documenting that the seller is exempt from any of the property flipping guidelines is required in the endorsement file prior to approving the loan transaction.
- See Purchase Transactions for additional requirements.

**Exceptions to the 90-Day Restriction**

- Sales by HUD of its own Real Estate Owned (REO) properties. Properties that were HUD REOs and then rehabilitated and resold are not eligible under this exemption.
- Sales by other US Government agencies of single family properties pursuant to programs operated by these agencies.
- Sales of properties by non-profits approved to purchase HUD-owned single-family properties at a discount with resale restrictions.
- Sales of properties that are acquired by the sellers by inheritance.
- Sales of properties purchased by employers or relocation agencies in connection with relocations of employees.
- Sales of properties by state and federally chartered financial institutions and Government Sponsored Enterprises (GSE).
- Sales of properties by local and state government agencies.
- Sales of properties within a Presidentially-Declared Major Disaster Area (PDMA), only upon issuance of notice of an exception from HUD.
Note: The restrictions listed above do not apply to a builder selling a newly built home or building a home for a borrower planning to use FHA-insured financing.

Re-sales that meet the 90-day exception requirements noted above, with a sales price increase of 100% or more require a second appraisal ordered from a Pacific Union Financial Appraisal Vendor service.

Re-sales Occurring Between 91 and 180 Days Following Acquisition

- For sales that occur between 91 and 180 days, where the new sales price exceeds the previous sales price by one hundred percent (100%) or more, FHA will require second appraisal by another appraiser as validation of the property's value.
  - If the second appraisal supports a property value that is more than 5% lower than the value of the first appraisal, the lower value must be used as the property value when determining the Adjusted Value. Example: If a property is re-sold for $80,000 within six (6) months of the seller’s acquisition of that property for $40,000, a second appraisal supporting the $80,000 sales price is required.
  - The Conditional Commitment is issued based on the appraisal used by underwriting.
- The cost of the second appraisal may not be charged to the borrower.
- Repairs on both appraisals must be resolved.

Property Listed for Sale (Wholesale and Non-Delegated Correspondent)

- Eligible for Rate/Term, Simple Refinance or Streamline Refinance if listing was expired or canceled prior to application date.
- Eligible for Cash-Out Refinance if listing was expired or canceled >90 days prior to loan application date.

Property Types

Eligible

- HUD Real Estate Owned (REO), with the exception of 203(h) loans. Refer to the HUD REO Program Guide for applicable guidelines.
- HRAP Condominium Projects, including Manufactured Housing Condominiums Projects (MHCPs), on FHA’s Approved Condominium List.
- Site Condominium, as defined in the following policy:
  - FHA Site Condominium Policy
- Manufactured Homes, with the exception of FHA 203(h) loans. Refer to the Manufactured Home Loan Program Guide for applicable guidelines and state restrictions.
- New Construction, defined as a property that has existed for less than one year from the date of the issuance of the Certificate of Occupancy (CO) or equivalent, is 100% complete and has never been occupied. Refer to New Construction for additional details.
- Owner-occupied one-to-four unit properties
- Properties that utilize an individual water purification system, if the system was installed to improve the taste or softness of water. Refer to Water Supply Systems for additional details.
- Townhouses or row houses
Two unit and three-to-four unit properties. Form HUD-92561, Borrower’s Contract with Respect to Hotel and Transient Use of Property, must be completed.

Ineligible

- Bed and breakfast establishments
- Boarding houses
- Commercial enterprises
- Cooperative (Co-Op) Properties
- Hotels, motels and condotels
- Investment property, with the exception of Streamline refinance transactions
- Manufactured Homes in a mobile home park
- Other transient housing
- Private clubs
- Properties on an Indian Reservation
- Tourist houses
- Vacation homes
- Condos not on FHA’s Approved Condominiums List. DELRAP approvals by another lender are not acceptable.

Debt-to-Income Ratios (DTI) / Qualifying

- The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio / DTI are summarized in the matrix below.
- The qualifying ratios for borrowers with no credit score are computed using income only from borrowers occupying the property and obligated on the loan.
  - Non-occupant Co-Borrower income may not be included.
- Documentation must be provided to verify that funds used to payoff debts prior to closing were obtained from an acceptable source and that the borrower did not secure a new debt that was not included in the DTI ratio.

DTI and Compensating Factors Requirement Matrix

<table>
<thead>
<tr>
<th>TOTAL Scorecard Approve/Accept Eligible Transactions</th>
<th>Acceptable Compensating Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Minimum Loan Decision Score</td>
<td>Maximum DTI</td>
</tr>
<tr>
<td>Refer to the Minimum Decision Score (MDCS) and LTV Matrix</td>
<td>No maximum DTI, with the exception of the following: (MDCS) and LTV Matrix</td>
</tr>
<tr>
<td></td>
<td>50% if 2-4 unit property and ANY borrower is a first-time homebuyer, regardless of geographic area.</td>
</tr>
<tr>
<td></td>
<td>50% if 2-4 unit properties located in New Jersey.</td>
</tr>
<tr>
<td></td>
<td>Refer to the Feedback Certificate/Finding Report Risk Classification for details regarding when an Accept recommendation must be downgraded and manually underwritten.</td>
</tr>
</tbody>
</table>
### Manually Underwritten Transactions
(Refer/Eligible, Manually Downgraded Loans, Simple Refinance or Credit Qualifying Streamlines)

<table>
<thead>
<tr>
<th>Lowest Minimum Loan Decision Score</th>
<th>Maximum DTI</th>
<th>Acceptable Compensating Factors</th>
</tr>
</thead>
</table>
| ≥580 with 2 comp factors          | 40% / 50%  | Two of the following **Compensating Factors** are required:  
|                                   |            | • Verified and documented cash reserves; or  
|                                   |            | • Minimal increase in housing payment; or  
|                                   |            | • Significant additional income not reflected in the gross effective income; or  
|                                   |            | • Residual Income. |
| ≥580 with no other debt           | 40% / 40%  | The borrower must meet all the following requirements:  
|                                   |            | • Monthly housing payment must be the only open installment account and must have a minimum 6 month payment history; and  
|                                   |            | • Revolving credit must have been paid in full each month during the most recent 6-month period.  
|                                   |            | • Note: Other debts and additional compensating factors are not allowed, including credit lines in which the borrower is an authorized user. |
| ≥580 with one comp factor         | 37% / 47%  | One of the **Compensating Factors** required:  
|                                   |            | • Verified and documented cash reserves;  
|                                   |            | • Minimal increase in housing payment; or  
|                                   |            | • Residual Income. |
| ≥580 with no comp factors         | 31% / 43%  | Compensating factors not required. |
| 560-579 or No Credit Score (Non-Traditional/Insufficient Credit) | 31% / 43% | • Compensating factors are not allowed. The DTI may not be exceeded.  
|                                   |            | • The qualifying ratios for borrowers with no credit score are computed using income only from borrowers occupying the property and obligated on the mortgage.  
|                                   |            | • Non-occupant co-borrower income may not be included. |

### Compensating Factors

- When required per the DTI and Compensating Factors Requirement Matrix, manually underwritten loans must include documented compensating factors to support the underwriting decision.
- If applicable, a worksheet must be attached to reflect the calculation of **Residual Income**.
- The fact that the borrower "has a job" or "has good credit" are NOT acceptable compensating factors, as these characteristics are required for approval. Acceptable compensating factors are as follows:
### Acceptable Compensating Factor

**Minimal increase in housing payment**
- 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
- For purchase, streamline and rate/term refinance: the previous housing payment history must include no more than one mortgage late payment within the most recent twelve months; or
- For cash-out transactions: all mortgage payments must have been paid within the month due within the most recent twelve months.

**Note:** If the borrower does not have a current housing payment, minimal increase in housing payment cannot be used as a compensating factor.

**Discretionary debt**
May be considered a compensating factor when all of the following apply:
- 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 (revolving and/or installment) in the borrower’s name open for at least six months and it is verified that the credit account has been paid in full monthly within the most recent six-month period.

**Residual income**
Must be equal to or higher than the applicable amounts on the Table of Residual Income by Region and calculated based on the following:
- All members of the household income may be included in the calculation, regardless of the nature of their relationship and without regard to whether they will be on the Note or title to the property.
- Members of the household may be omitted from the “family size” when determining residual income as a compensating factor, if the family member provides sufficient documentation verifying that they are fully supported by a source of income not included in the loan analysis.

**Significant additional income not reflected in gross effective income**
- Verified and documented significant overtime or bonus income that is not considered effective income, but the borrower has received the income for at least one year but less than two years. The income must be likely to continue.
- Verified and document part-time or seasonal employment with income that is not considered effective income, but the borrower’s part-time and seasonal work status has been uninterrupted for at least one year but less than two years and there are plans to continue this work.

**Verified and documented cash reserves**
- 1–2 units: Reserves are equal to or exceed three total monthly payments
- 3–4 units: Reserves are equal to or exceed six total monthly payments.
- The reserves must be liquid or readily convertible to cash, and can be done so absent retirement or job termination.
- Reserves are calculated as the borrower’s total assets as described in the Asset section of the this program guide and the HUD Handbook 4000.1, less:
  - Gift Funds
  - The total funds required to close the mortgage
  - Borrowed funds
• Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.
• A portion of a borrower’s retirement account (IRA, Thrift Savings Plan, 401k, and Keogh accounts) may be considered, subject to the following conditions:
  ▪ To account for withdrawal penalties and taxes, only 60% of the vested amount of the account, less any outstanding loans, may be used. Requires documentation of the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower’s employment termination, retirement, or death.
  ▪ If withdrawals can only be made in connection with the borrower’s employment termination, retirement, or death, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.

### Qualifying Rate

- **Fixed rate transactions:** Qualify at note rate.
- **Hybrid ARM transactions:** Qualify at note rate, unless the subject is located in one of the following states. For these states the ARM must be qualified at the greater of the note rate or the fully indexed rate in order to meet both agency and state requirements.
  - Illinois
  - Maryland
  - Minnesota
  - New Mexico
  - Pennsylvania
  - Vermont
  - All HPML Hybrid ARM transactions must be qualified at the higher of the note rate or the fully indexed rate.

### Residual Income

Residual income is the amount of income remaining after the deductions defined below have been subtracted from all occupying borrowers total/gross income.

- Total/Gross income may not include bonus, part-time or seasonal income that does not meet HUD’s effective income requirements.
- Income from non-occupying co-borrower, co-signers, non-borrower spouses, or other parties not obligated on the mortgage may not be included.
- Non-taxable income may not be “grossed up” (taxes are taken into account during the residual income calculations).
- Residual income deductions include the following:
  ▪ The total monthly fixed payment.
  ▪ State, Federal, local or other income taxes. If available, use the borrower’s most recent tax returns to document federal, state and local taxes liabilities or taxes can be calculated using the most recent IRS Tax Tables and state or local taxing authorities tax requirements.
  ▪ Retirement and Social Security (paystubs or tax returns may be used to determine the maximum deduction).
  ▪ Estimated maintenance and utilities
    - Maintenance and utility costs may be estimated by multiplying the living area...
of the property (square feet) by 14 cents.

- Job related expenses (e.g. childcare).
- The amount of the gross up of any non-taxable income.

- FHA requires a specific amount of monthly residual income be available for the borrower’s use. This amount is based on the family size, location of the property and loan amount.

**Table for Residual Income By Region**

<table>
<thead>
<tr>
<th>Loan Amounts $79,999 and Below</th>
<th>Family Size</th>
<th>Northeast</th>
<th>Midwest</th>
<th>South</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>$390</td>
<td>$382</td>
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<td>$425</td>
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<td>2</td>
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<td>5</td>
<td>$921</td>
<td>$902</td>
<td>$902</td>
<td>$1,004</td>
</tr>
<tr>
<td>Over 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Add $75 for each additional family member up to 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Amounts $80,000 and Above</td>
<td>Region</td>
<td>States</td>
<td>States</td>
<td>States</td>
<td>States</td>
</tr>
<tr>
<td>1</td>
<td>Northeast</td>
<td>CT, MA, ME, NH, NJ, NY, PA, RI, VT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Midwest</td>
<td>IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>South</td>
<td>AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, VI, WV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>West</td>
<td>AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Over 5</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Add $80 for each additional family member up to 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Geographic Restrictions

- New Jersey: Refer to [Cash Reserves](#) and [Compensating Factor Requirements Matrix](#) for detailed requirements.
- Texas: Texas Home Equity loans not allowed.
- Hawaii: Properties located in Lava Zones 1 and 2 are not allowed.
- New York: Properties are permitted. CEMA and Co-Op transactions are not eligible, except as noted below.

### Income and Employment

Loans must be documented in accordance with FHA Policies and the AUS findings. Only income that meets FHA standards for effective income should be included in the AUS submission. Typically, FHA defines effective income as income that is likely to continue for at least three years.

- Only income that is legally derived and, when required, properly reported as income on the borrower’s tax return may be considered effective income.
Negative income must be subtracted from the borrower’s gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.
Refer to the HUD 4000.1 for income and employment guidelines not addressed in this section.

Alimony, Child Support and Maintenance Payments

- Refers to income received from a former spouse, partner or from a non-custodial parent of the borrower’s minor dependent.
- May be considered effective income if payments are likely to be received for the first three years of the mortgage, as documented by a divorce decree, legal separation agreement, court order, or voluntary payment agreement.
- When a final divorce decree, legal separation agreement or court order is provided, the income may be used as effective income if three months receipt of consistent payment is evidenced by canceled checks, bank statements reflecting the deposits, or documentation from the child support agency.
- For voluntary payment arrangements, 12 months receipt of payment must be evidenced by canceled checks, deposit slips or tax returns.
- If the payment has been received consistently during the most recent six months, the payment amount may be included when calculating effective income.
- If the payment amount have NOT been received consistently during the most recent six months, use the average of the income received over the previous two years to calculate effective income.
- If the income has been received less than two years, use the average for the time of receipt.

Annuity or Similar Type Income

- Refers to a fixed sum of money periodically paid to the borrower from a source other than employment.
- The legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage must be obtained.
- A bank statement or a transaction history from a bank evidencing receipt of the annuity is required.
- The current rate of the annuity must be used to calculate the effective income.
- Any assets used for the borrower’s required funds to close must be subtracted from the liquid assets prior to calculating annuity income.

Automobile Allowance

- Refers to the funds provided by the borrower’s employer for automobile related expenses that exceeds the borrower’s actual automobile expenditures.
- The borrower must have a consecutive two year history of receiving the automobile allowance, as evidenced by the previous two years IRS Form 2106, Employee Business Expenses.
- Automobile expenses shown on IRS Form 2016 must be subtracted from the automobile allowance before calculating effective income.
- If the borrower uses the standard per-mile rate to calculate automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to the effective 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.

**Boarder Income**

- Boarder refers to an individual renting space inside the borrower’s dwelling.
- Rental income from boarders is only acceptable when there is a two-year history of receipt of the income as evidenced by the borrower’s tax return and borrower is currently receiving the income.
- Two years tax returns and the current lease are required.
  - For purchase transactions, a copy of the executed written agreement documenting the boarder’s intent to continue boarding with the borrower is required to document continued boarder income.
  - Effective income is calculated by using the lesser of the two-year average or the current lease.

**Borrower Employed By a Family Member**

- In addition to standard income documentation, borrower must provide evidence that he/she does not have ownership in the business. Acceptable documentation includes:
  - Copies of signed personal tax returns, or
  - Signed copy of the corporate tax return showing ownership percentage.

**Borrower Returning to Work**

- A borrower who is returning to work after an extended absence of six months or more is eligible subject to the following:
  - Current employment of at least six months
  - Documentation of two years of employment prior to the absence.
    - Acceptable documentation includes W-2 forms, paystubs, or written verification of employment.
- Acceptable scenarios include an individual who took several years off to raise children, but has now returned to work.

**Capital Gains and Losses**

- Capital Gains refers to a profit that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.
- Capital Loss refers to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.
- Three years of tax returns are required to evaluate capital gains and/or loss earnings trend as follows:
  - If the trend results in a gain, it may be added as effective income.
  - If the trend results in consistent loss, it must be deducted from the total income.

**Commission Income**

- Refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.
Commission income may be used as effective income 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.
Unreimbursed business expenses must be subtracted from gross income.
Calculate effective income for commission by using the lesser of:
- The average net commission income earned over the previous two years, or the length of time commission income has been earned if less than two years; or
- The average net commission income earned over the previous one year.
Required documentation:
- For commission income less than or equal to 25% of the borrower's total earnings, traditional and alternative employment documentation may be used.
- For commission greater than 25% of the borrower’s total earnings, signed tax returns, including all applicable schedules, for the last two year period must be obtained.
- Refer to the IRS Form 4506-T section for additional requirements.

Disability Benefits
Benefits may be received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or private disability insurance providers.
Inquiries regarding the nature of a borrower’s disability/medical condition or request for medical documentation is not allowed.
The most recent amount of benefits received must be used to calculate Effective Income.
If any disability income is due to expire within three years from the date of the mortgage application, that income cannot be used as Effective Income.
- If the Notice of Award or equivalent document does not have a defined expiration date, consider the income effective and reasonably likely to continue.
- A pending or current re-evaluation of medical eligibility for benefit payments status may not be relied upon as evidence that the benefit payment is not reasonably likely to continue.
Social Security Disability and Supplemental Security Income (SSI):
- A copy of the last Notice of Award letter, or an equivalent document that establishes the borrower’s award benefits AND one of the following are also required:
  - Federal tax returns;
  - The most recent bank statement evidencing receipt of income from the SSA;
  - A Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- Refer to Retirement Income for Social Security Income or Supplemental Security Income (SSI).
VA Disability Benefits:
- A copy of the Veteran’s most recent Benefits Letter and one of the following documents is required to verify the amount of VA disability benefit amount:
  - Federal tax returns; or
  - The most recent bank statement evidencing receipt of income from the VA.
Private Disability:
- Documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits is required AND one of the following are also required:
  - Federal tax returns; or
  - The most recent bank statements evidencing receipt of income from the insurance provider.

Employment Related Income
- Refers to income reported on IRS Form W-2.
- Documentation of employment and income for the most recent two years is required.
- Re-verification of employment must be completed for all employment income types. Refer to Verbal VOE (VVOE) and Verification of Employment (VOE) for additional details.

**TOTAL Scorecard**
- Obtain the borrower’s most recent pay stub that shows the borrower’s year to date earnings; and
- A written Verification of Employment (VOE) covering two years; or
- An electronic verification acceptable to FHA.

Manual Underwriting
- Obtain the borrower’s most recent paystub covering a minimum of 30 consecutive days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days); and
- A written Verification of Employment (VOE) covering two years; or
- An electronic verification acceptable to FHA.

Alternative Current Employment Documentation

**TOTAL Scorecard**
- Obtain the borrower’s most recent pay stub that shows the borrower’s year-to-date earnings; and
- Copies of the original IRS W-2 forms from the previous two years; and
- The borrower’s current employment must be documented by VVOE. Refer to Verification of Employment for detailed requirements.

**Manual Underwriting**
- Obtain the borrower’s most recent paystub covering a minimum of 30 consecutive days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) that show the borrower’s year-to-date earnings; and
- Copies of the original IRS W-2 forms from the previous two years; and
- The borrower’s current employment must be documented by VVOE. Refer to Verification of Employment for detailed requirements.

Past Employment Documentation

**TOTAL Scorecard and Manual Underwriting**
- Direct verification of the borrower’s employment history for the previous years in not required if all the following conditions are met:
• The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
• Only base pay is used to qualify (no overtime or bonus income).
• The borrower executes IRS Form 4506-T or IRS Form 8821.
• If the borrower has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, one or a combination of the following for the most recent two years, must be obtained to verify the borrower’s employment history:
  • W-2(s)
  • VOE(s)
  • Electronic verification acceptable to FHA
  • Evidence supporting enrollment in school or the military during the most recent two full years.

Employer Housing Subsidy
• Employer Housing Subsidy refers to employer-provided mortgage assistance.
• The amount of the housing subsidy must be verified and documented.
• Subsidy may be added to the total Effective Income, but may not be used to offset the mortgage payment.

Expected Income
• Refers to income from cost-of-living adjustments, performance raises, a new job or retirement that has not been, but will be received within 60 days of mortgage closing.
• Expected income may be used as effective income when the employer guarantees in writing, the amount of the expected income and that the income will begin within 60 days of mortgage closing.
• Written employer guarantees are not required for expected retirement income. Verify the amount and that it is guaranteed to begin within 60 days of mortgage closing.
• Income is calculated in accordance with the standards for the type of income being received, refer to the applicable income type with this loan program guide and/or the HUD Handbook 4000.1.
• Sufficient income and/or cash reserves to support the mortgage payment and any other obligations between mortgage closing and the beginning of the receipt of income must be verified.
• **Note:** Income derived from a family owned-business may not be considered expected income.

Family Owned Business Income
• Refers to employment income earned from a business owned by the borrower’s family, but in which the borrower is not an owner.
• Signed personal tax returns or tax transcripts must be obtained to verify that the borrower is not an owner of the family owned business.
• The following official business documents are also required:
  • Corporate resolutions or other business organizational documents; or
  • Business tax returns; or
  • Schedule K-1 (IRS Form 1065), U.S. Return of Partnership Income; or
  • An official letter from a certified public accountant on their business letterhead.
- In addition to traditional or alternative documentation requirements, copies of signed personal tax returns or tax transcripts must be obtained. Refer to the IRS Form 4506-T section for detailed requirements.
- Effective income may be calculated as follows:
  - Current salary may be used for borrowers who are salaried and whose income has been and will likely continue to be consistently earned.
  - Current hourly rate may be used for borrowers who are paid hourly and whose hours do not vary.
  - If the hours vary, the average income over the previous two years must be used. If an increase in pay rate is documented, the most recent 12 month average of hours at the current rate may be used.

**Investment Income**

- Refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.
- Tax returns for the previous two years and the most recent account statement must be obtained to verify and document investment income.
- Income must be calculated by using the lower of:
  - The average investment income earned over the previous two years; or
  - The average investment income earned over the previous one year.
- Note: For purchases, any assets used to close on the subject property must be subtracted from the borrower’s liquid assets prior to calculating interest or divided income.

**IRS Form 4506-T**

- Refer to the following for detailed requirements:
  - Credit Policy section of the Correspondent Lending Guide

**Military Income**

- Military income refers to income received by military personnel during their period of active, Reserve, or National Guard service, and may include:
  - Base pay;
  - Basic allowance for housing;
  - Clothing allowance;
  - Flight or hazard pay;
  - Basic allowance for subsistence; and
  - Proficiency pay
- **Note:** Military education benefits may not be used as effective income.
- A copy of the borrower’s military Leave and Earning Statement (LES) is required.
  - The Expiration Term of Service date on the LES must be verified. If the date is within the first 12 months of the proposed mortgage, the military income may only be considered effective income if the borrower represents their intent to continue military service.
  - The current amount of military income received must be used to calculate effective income.
Non-Taxable Income

- Refers to types of income not subject to federal taxes, including but not limited to the following:
  - Some portion of Social Security Income (SSI);
  - Some federal government employee retirement income;
  - Railroad retirement benefits;
  - Some state government retirement income;
  - Certain types of disability and public assistance payments;
  - Child support;
  - Military allowances; and
  - Other income that is documented as being exempt from federal income taxes.
- The 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, the non-taxable income may be grossed up by 15%.
  - Additional adjustment or allowances based on the number of dependents is not allowed.

Notes Receivable Income

- Refers to income received by the borrower as payee or holder in due course of a promissory note or similar credit instrument.
- Tax returns, deposit slips or canceled checks are required to verify that the note receivable payment has been consistently received the previous 12 months.
- If borrowers have been and will be receiving a consistent amount of notes receivable income, the current rate of income may be used to calculate effective income.
- If the receipt of notes receivable income fluctuates, the average income received over the previous year must be used to calculate effective income.
- Documentation that guarantees that the income will continue for the first three years of the mortgage is required.

Other Public Assistance

- Public Assistance refers to income received from government assistance programs.
- Receipt of income must be verified and documented.
- If any public assistance income is due to expire within three years from the date of the mortgage application, that income may not be used as effective income.
  - If the documentation does not have a defined expiration date, consider the income effective and reasonably likely to continue.
- The current rate of public assistance must be used to calculate effective income.

Overtime and Bonus Income

- Refers to income that the borrower receives in addition to the borrower’s normal salary.
- May be used as effective income if the borrower received this income for the past two years and it is reasonably likely to continue.
- Income less than two years may be considered if earned consistently over a period of not less than one year and is reasonably likely to continue.
- Overtime and bonus income must be averaged for the two-year period earned.
• If the current year decreases by 20% or more from the previous year, the current year’s average income must be used.

**Part-Time Employment**

• Refers to employment that is not the borrower’s primary employment and is generally for less than 40 hours per week.
• May be used as effective income if the borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.
• Part-time income must be averaged for the two-year period earned.
• If an increase in pay rate is documented, the most recent 12-month average of hours at the current rate may be used.

**Primary Employment**

• Primary employment is generally full-time employment and may be either salaried or hourly.
• For borrowers who are salaried and whose income has been and will likely be consistently earned, use the current salary.
• For borrowers who are paid an hourly rate and whose hours DO NOT vary, use the current hourly rate.
• For borrowers who are paid hourly and whose hours vary, average the income over the previous two years.
• If an increase in pay rate is documented, the most recent 12-month average of hours at the current rate may be used.

**Rental Income**

Rental income from existing and prospective tenants may be considered effective income if documented in accordance with the following requirements.

**Subject Property**

• Rental income must be considered from existing and prospective tenants, if documented in accordance with the following requirements. Required documentation varies depending upon the length of time the borrower has owned the property.
• Income may be considered effective income when the property is a two-to-four unit dwelling or an acceptable one-to-four unit investment property.

**Limited or No History of Rental Income**

• If the borrower does not have a history of rental income since the previous tax filing:
  • One Unit rental income must be documented and verified as follows:
    • Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70); and
    • Single Family Comparable Rent Schedule (Fannie Mae Form 1007/Freddie Mac 1000);
    • Operating Income Statement (Fannie Mae Form 216/ Freddie Mac Form 998); and
    • If available, the prospective lease.
  • Two-to-four units:
    • Rental income must be documented and verified as follows:
o Uniform Residential Appraisal Report showing fair market rent (Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report)
  o Prospective leases, if available
  - Three-to-four units:
    • Refer to Self-Sufficiency Rental Income Eligibility for additional requirements.
    • Three months reserves after closing are required on all 3-4 unit property transactions, with the exception of New Jersey.
    • Six months reserves are required after closing for 3-4 unit properties located in New Jersey.
- Effective income must be calculated using the lesser of:
  - The monthly operating income reported on the Operating Income Statement; or
  - 75% of the lesser of:
    • Fair market rent reported by the Appraiser; or
    • The rent reflected in the lease or other rental agreement.
  - Note: The net rental income must be added to the borrower’s gross income. The total mortgage payment may not be reduced by the rental income.

History of Rental Income Since the Previous Tax Filing

- If the borrower has a history of rental income received from the subject property since the previous tax filing, the rental income must be verified and documented by obtaining the following:
  - The existing lease agreement
  - Rental income over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation)
  - The borrower’s most recent two year tax returns, including the Schedule E
  - For properties with less than two years rental income history, the date of acquisition must be documented by providing the deed, settlement statement, or other legal documents
- Rental income must be calculated by averaging the amount shown on the Schedule E.
  - Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.
  - If the property has been owned for less than two years, the rental income must be annualized for the length of time the property has been owned.
  - Note: The net rental income must be added to the borrower’s gross income. The total mortgage payment may not be reduced by the rental income.

Rental Income From Other Real Estate Holdings

- If rental income is being derived from the property being vacated by the borrower, the borrower must be relocated to an area more than 100 miles from the borrower’s current principal residence.
- A lease agreement of at least one-year’s duration after the mortgage is closed and evidence of the payment of the security deposit and first month’s rent is required.
- Three-to-four units: Refer to Self-Sufficiency Rental Income Eligibility for additional requirements.

Limited or No History of Rental Income
• When the borrower does not have a history of rental income since the previous tax filing, including the property being vacated by the borrower, an appraisal evidencing market rent and that the borrower has at least 25% equity in the property is required.
  ▪ The appraisal is not required to be completed by an FHA Roster appraiser.
• The most recent two years’ tax returns, with Schedule E, are required.
• If one unit, the rental income must be verified and documented by obtaining the following:
  ▪ Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70); and
  ▪ Single Family Comparable Rent Schedule (Fannie Mae Form 1007/Freddie Mac Form 1000); and
  ▪ Operating Income Statement (Fannie Mae Form 216/Freddie Mac Form 998) showing the fair market rent; and
  ▪ The prospective lease, if available.
• If two to four units:
  ▪ The rental income must be verified and documented by obtaining:
    ▪ Small Residential Income Property Appraisal Report (Form 1025/Form 72), showing fair market rent and
    ▪ The prospective lease, if applicable
  ▪ Three-to-four units:
    ▪ Refer to Self-Sufficiency Rental Income Eligibility for additional requirements.
• Three months reserves after closing are required on all 3-4 unit property transactions, with the exception of New Jersey.
  o Six months reserves are required after closing for 3-4 unit properties located in New Jersey.
• To calculate the effective net rental income, deduct the PITI from the lesser of:
  ▪ The monthly operating income reported on Freddie Mac Form 998, or
  ▪ 75% of the lesser of:
    ▪ Fair market rent reported by the appraiser; or
    ▪ The rent reflected in the lease or other rental agreement.

History of Net Rental Income
• The most recent two years’ tax return, with Schedule E, are required.
• Depreciation shown on the Schedule E may be added back to the net income or loss.
• If the property has been owned more than two years, net rental income is calculated by averaging the amount shown on the Schedule E, provided the borrower continues to own all properties included on the Schedule E.
• If the property has been owned less than two years, annualize the rental income for the length of time the property has been owned.
  ▪ Document the date of acquisition of the property by obtaining the deed, settlement statement or similar legal document.
• Positive income may be added to the borrower’s effective income. Negative income must be included as debt/liability.
• Three-to-four units: Refer to Self-Sufficiency Rental Income Eligibility for additional requirements.
Retirement Income

Social Security Income or Supplemental Security Income (SSI):

- Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.
- Verification that the income is likely to continue for at least a three year period from the date of case number assignment is required and must be documented as follows:
  - Federal tax returns;
  - The most recent bank statement evidencing receipt of income from the SSA;
  - A Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidence income from the SSA; or
- If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.
- If the Notice of Award or equivalent document does not have a defined expiration date, the income must be considered effective and reasonably likely to continue. The borrower cannot be required to provide additional documentation to demonstrate continuance of SSA income.
- If any of the income from SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying purposes.
- The borrower’s current amount of SSI must be used to calculate effective income.
- Refer to Disability Benefits for SSA disability income requirements.

Pension:

- Pension refers to income received from the borrower’s former employer(s).
- Receipt of periodic payments and that the payments are likely to continue for at least three years must be verified and documented as follows:
  - Federal Tax Returns;
  - The most recent bank statements evidencing receipt of income from the former employer; or
  - A copy of the borrower’s pension/retirement letter from the former employer.
- The current amount of pension income must be used to calculate effective income.

Individual Retirement or 401(K):

- Borrower’s receipt of recurring IRA/401(k) distribution income and that the disbursements are likely to continue for at least three years must be verified and documented as follows:
  - Federal tax returns; or
  - The most recent bank statement evidencing receipt of income.
- For fluctuating IRA/401(k) income, use the average of the income received over the previous two years to determine effective income.
- If the IRA/401(k) income has been received for less than two years, use the average income over the time of receipt. No minimum history of payments is required.
- The current amount of IRA income must be used to calculate effective income.
Section 8 Homeownership Vouchers

- Section 8 Homeownership Vouchers refers to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).
- Receipt of the Housing Choice Voucher homeownership subsidies must be verified and documented.
  - The subsidy income may be considered likely to continue for three years.
- The subsidy amount may only be used as effective income. The subsidy amount may NOT be used to offset the borrower’s mortgage payment.

Seasonal Employment

- Refers to employment that is not year round, regardless of the hours per week the borrower works on the job.
- Income must be considered effective income 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.
- Unemployment income may be considered effective income for seasonal employee if the income has been received for two full years and there is a reasonable assurance that the income will continue.
- Income earned must be averaged over the previous two full years to calculate effective income.

Self-Employed Income

- Refers to income generated by a business in which the borrower has a 25% or greater ownership interest.
- There are four basic types of business structures:
  - Sole Proprietorship;
  - Corporations;
  - Limited liability or “S” corporations (a business credit report is required); and
  - Partnerships.
- Minimum length of self-employment and effective income requirements are as follows:

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<thead>
<tr>
<th>Length of Self-Employment</th>
<th>Income Consideration</th>
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<tr>
<td>Two years or greater</td>
<td>Income may be considered as effective income</td>
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<tr>
<td>One to two years</td>
<td>Income may only be considered 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.</td>
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<tr>
<td>Less than one year</td>
<td>Income is may NOT be considered as effective income</td>
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Documentation Requirements

**TOTAL Scorecard**

- Complete individual federal tax returns including all schedules, covering the most recent two years are required.
- Complete business tax returns for the most recent two years, including all schedules are required, unless the following criteria are met:
  - The borrower’s individual federal income tax returns show increasing self-employment income over the past two years; and
- Funds to close are not coming from the business accounts; and
- The mortgage to be insured is not a cash-out refinance.
- Refer to the IRS Form 4506-T section for additional requirements.

**Manual Underwriting**
- Signed, completed individual and business federal tax returns including all schedules, covering the most recent two years are required.
- If income used to qualify the borrower exceeds the two year average of tax returns, an audited Profit and Loss (P&L) or signed quarterly tax return are required.
  - If more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax return was filed by the borrower, a year-to-date P&L statement and balance sheet must be obtained.
  - A balance sheet is not required for self-employed borrower filing Schedule C income.
- Refer to the IRS Form 4506-T section for additional requirements.

**Income Calculation**
- Income obtained from businesses with annual earnings that are stable or increasing are acceptable.
- The borrower’s tax return must be analyzed to determine gross self-employment income. Gross income must be determined by using the lesser of:
  - The average gross self-employment income earned over the previous two years; or
  - The average gross self-employment income earned over the previous one year.
- Refer to HUD Handbook 4000.1, Appendix 2.0 – Analyzing IRS Forms, for income analysis requirements.

**TOTAL Scorecard**
If the business income shows a greater than 20% decline in effective income over the analysis period, the loan must be downgraded and manually underwritten.

**Manual Underwriting**
- If the business income shows a greater than 20% decline in effective income over the analysis period, the income can only be considered stable effective income if:
  - Documentation is provided evidencing that the reduction in income was the result of an extenuating circumstance; and
  - The borrower can demonstrate the income has been stable or increasing for a minimum of 12 months; and
  - The borrower qualifies utilizing the reduced income.

**Self-Sufficiency Rental Income Eligibility**
- Net self-sufficiency rental income refers to 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 borrower’s chooses for occupancy, and subtracting the greater of the Appraiser’s estimate for vacancies and maintenance, or 25% of the fair market rent.
Stability of Employment

Employment Gaps

- The borrower must explain any gaps of employment that span six months or more (an extended absence). The borrower’s current income may be considered as effective income if it can be verified and documented that:
  - The borrower has been employed at their current job for at least six months prior to the case number assignment date; and
  - The borrower has a two-year work history prior to the absence from employment. Prior work history can be by using standard or alternative employment verification.
  - Allowances can be made for Seasonal Employment, if documented.

Frequent Changes in Employment

- If the borrower has changed jobs more than three times or has changed lines of work in the previous 12 month period, verify and document the stability of the borrower’s employment income as follows:
  - Transcripts of training and education demonstrating qualification for a new position; or
  - Employment documentation evidencing continual increases in income and/or benefits.
- The documentation requirements above are not required for fields of employment that regularly require a borrower to work for various employers, such as Temp Agencies, Union Trades and etc.

Temporary Reduction in Income

- If a temporary reduction of income was due to a short-term disability or similar temporary leave, the current income may be considered effective income if the following can be verified and documented:
  - The borrower’s intent to return to work;
  - That the borrower has the right to return to work; and
  - That the borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance.
- For borrowers returning to work before or at the time of the first mortgage payment due date, use the borrower’s pre-leave income.
- For borrower’s returning to work after the first mortgage payment due date, use the borrower’s current income plus available surplus liquid assets 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.
- The following documentation is required:
  - A written statement from the borrower confirming their intent to return to work and the intended date of return; and
  - 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 that can be used to supplement the borrower’s income through the date the borrower intends to return to work.

Trust Account Income

• Refers to income that is regularly distributed to a borrower from a trust. The following documents are required:
  ▪ Trust Agreement or other trustee statement that verifies that regular payments will continue for at least the first three years of the mortgage term; and
  ▪ Bank statements or transaction histories from the bank are required to verify the frequency, duration, and amount of the distributions.
  ▪ Effective income must be calculated based on the terms and conditions in the Trust Agreement or other trustee statement.

Verification of Employment (VOE)

• VOEs must be on a standard verification form and must be sent directly from the loan originator to the employer and returned directly from that entity.
• Faxed verification forms are acceptable if it is clear from the document that the information was sent by fax transmission directly from the source to the originator.
• The original documents must not contain any alterations, erasures, correction fluid or correction tape.
• The loan file must include legible copies of the originals.

Verbal VOE (VVOE)

• A VVOE must be completed PRIOR to closing as follows:
  ▪ By the Correspondent within five business days prior to closing.
• A VVOE or VOE is not required for Non-Credit Qualifying Streamlines when an abbreviated URLA is utilized, even when employment details are disclosed on the loan application.
  ▪ Verifications are always required on a Credit Qualifying Streamline and Simple Refinance transactions.

Liabilities

30 Day Accounts

• Refers to a credit arrangement that requires the borrower to pay off the outstanding balance on the account every month.
• If the outstanding balance has been paid in full monthly the most recent 12 months, the debt does not have to be included in the borrower’s DTI.
• If the credit report reflects any late payments in the last 12 months, 5% of the outstanding balance must be included in the borrower’s DTI.
• The credit report must be used to document the payment history and the account balance.
• Documentation that funds are available to payoff the balance in excess of the funds required for reserves and closing is required.

Alimony, Child Support and Maintenance Payments

• Refers to court-ordered or otherwise agreed upon payments that have been verified.
• An official signed divorce decree, separation agreement, maintenance agreement or other legal order is required to verify the payment amount.
• A paystub(s) covering no less than 28 consecutive days, must be obtained to verify if the liability is subject to garnishment.
• Alimony
  ▪ Payments may be treated as a reduction to the borrower’s income; or
  ▪ Included in the borrower’s monthly obligation when calculating the DTI.
• Child support and maintenance must be treated as a monthly obligation when calculating the DTI.
• The monthly obligation must be based on the greater of the amount shown on the most recent decree/agreement or the monthly amount of the garnishment, if applicable.

Business Debt in Borrower’s Name
• Refers to liabilities reported on the borrower’s credit report, but payment for the debt is attributed to the borrower’s business.
• The debt must be included in the borrower’s DTI calculation, unless documentation is provided evidencing that the debt is being paid by the borrower’s business and that the debt is included in the business cash flow analysis.
• The debt is considered in the cash flow analysis if the borrower’s tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented or paid out of company funds.
• If the business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

Contingent Liability
• Refers to a liability that may result in the obligation to repay only when a specific event occurs.
• Examples of contingent liability are:
  ▪ When an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment.
  ▪ Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.
• The agreement that creates the liability, the assumption agreement and deed showing the transfer of title out of the borrower’s name or a copy of the divorce decree ordering the spouse to make payments is required.
• The monthly payment is determined by the terms of the agreement creating the contingent liability and must be included in the borrower’s DTI, unless:
  ▪ The borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against the borrower should the other party default; or
  ▪ The other legally obligated party has made the most recent 12-month payments on time and does not have a history of delinquent payments on the loan.
• The monthly payment must be based on the terms of the agreement creating the contingent liability.

Co-Signed Obligations

If the borrower is a co-signer, or otherwise co-obligated on a car loan, student loan, mortgage, or any other obligation, contingent liability applies unless the lender obtains documented proof.
that the primary obligor has been making payments during the previous 12 months on a regular basis and does not have a history of delinquent payments on the loan.

**Mortgage Debt**

- If a borrower is obligated on an outstanding mortgage secured by a property which has been sold by assumption, Contract for Deed or traded within the last twelve months without a release of liability, or a property was transferred because of divorce, contingent liability must be considered a recurring liability unless the following circumstances apply:
  - Payment history reflects 0 x 30 for the last 12 months (see note below), or
  - An appraisal or closing statement from the sale of the property supports a value that results in a 75% LTV ratio (the outstanding balance on the mortgage loan, minus any UFMIP, cannot exceed 75% of the appraised value or sales price).
  - A copy of the divorce decree ordering the former/separated spouse to make payments or the assumption agreement and the deed showing transfer of title out of the borrower’s name is required.

**Note:** A 12-month payment history is required only on loans that do not receive a TOTAL Scorecard approval.

**Deferred Obligations**

- Deferred obligations (excluding Student Loans) refers to liabilities that have been incurred but the payments are deferred or have not commenced, including accounts in forbearance.
- Written documentation from the creditor is required and must include evidence of the outstanding balance and terms of the deferred liability.
  - If evidence of the anticipated/actual monthly payment is available, that amount must be used to determine the borrower’s DTI.
  - If the actual monthly payment is not available for installment debt, utilize the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

**Inaccuracy in Debt Submitted to TOTAL Scorecard**

- When an inaccuracy in the amount, type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS:
  - 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 DTI is more than $100 per month; and
  - Determine if the additional debt was not/will not be used for the borrower’s Minimum Required Investment (MRI).

**Installment Debt**

- Installment debt (excluding Student Loans) refers to loans, not secured by real estate, that require a periodic payment of principal and interest (P&I).
- A loan secured by an interest in a timeshare must be considered an installment loan.
• No further documentation is required if the monthly payment shown on the credit report, loan agreement or payment statement is used when calculating the borrower’s DTI.
  ▪ If the credit report does not include a monthly payment or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, a copy of the loan agreement or payment statement documenting the amount of the monthly payment must be obtained.
• Closed-in debts that will be paid off within 10 payments do not have to be included in the DTI if the cumulative payments of all such debts is less than or equal to 5% of the borrower’s gross monthly income.
  ▪ The borrower may not pay down the balance in order to meet the 10-month requirement.
  ▪ However, at the underwriter’s discretion, installment debt less than 10 months may be included if the payment amount will affect the borrower’s ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited reserves after closing.
• Refer to Authorized User Accounts for debts in which the borrower is an authorized user.
• Refer to Deferred Obligations if the credit report, loan agreement, or payment statement shows deferred payment arrangements.

Lease Payments

Automobile lease payments must always be included in qualifying ratios regardless of the number of months remaining on the lease contract.

Non-Borrowing Spouse Debts in Community Property States

• Refers to debts owed by a spouse that are not owed by or in the name of the borrower.
• In community property states, a credit report is required and the debts of the non-borrowing spouse must be included on the URLA and added when determining qualifying ratios.
• The credit report is for the purpose of establishing debt only, and is not submitted to TOTAL Scorecard for the purpose of credit evaluation.
• The credit report for the non-borrowing spouse may be traditional or non-traditional. If applicable, refer to Non-Traditional Credit for additional details.
• The non-borrowing spouse’s credit history is not considered a reason to deny a mortgage application.
• The non-borrowing spouse debt(s) must be verified, documented and included in the borrower’s DTI.
• The underwriter must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.
• Refer to Non-Borrowing Spouse for additional details.

Obligations Not Considered Debt

• Obligations not considered debt include:
  ▪ Medical collections
  ▪ Federal, state, and local taxes, if not delinquent and no payments are required.
  ▪ Automatic deductions from savings, when not associated with another type of obligation.
• Federal Insurance Contributions Act (FICA) and other retirement.
• Collateralized loans secured by depository accounts.
• Utilities
• Child care
• Commuting costs
• Union dues
• Insurance, other than property insurance.
• Open accounts with zero balances.
• Voluntary deductions, when not associated with another type of obligations.

Private Savings Clubs
• Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.
• If the borrower is obligated to continue making ongoing contributions under the pooled savings agreement, the obligation must be counted in the borrower’s DTI.
• The following must be provided:
  ▪ Verification and documentation that establishes the duration of the borrower’s membership; and
  ▪ The amount of the borrower’s required contribution to the club; and
  ▪ The club’s account ledgers and receipts; and
  ▪ Verification from the club treasure to confirm that the club is still active.

Retirement Account Loans
• A retirement account loan is a loan that is secured by the borrower’s retirement assets.
• The existence of the retirement account, the account balance and the outstanding loan amount must be verified and documented.
• The retirements account balance must be reduced by the amount of the outstanding loan balance.

Revolving Debt
• Refers to credit arrangement that requires the borrower to make periodic payments, but does not require full repayment by a specific point of time.
• The revolving debt’s monthly payment amount shown on the credit report must always be included in qualifying ratios.
• If the credit report does not reflect a specific monthly payment amount, obtain a copy of the most recent charge account statement and utilize the monthly payment amount noted on the statement or use 5% of the outstanding balance as the monthly payment amount.
• At the underwriter’s discretion, it is acceptable for a borrower to pay down or pay off a revolving debt in order to qualify.
  ▪ If revolving debt is paid down or paid off prior to closing, verification that the funds were secured from an acceptable source and that the borrower did not incur any additional debt that will impact their debt-to-income ratio is required.

Student Loans
• All student loans must be included in the borrower’s liabilities, regardless of the payment type or status of the payment.
Regardless of the payment status, the payment amount used for qualifying must be either:
  - The greater of:
    - 1% of the outstanding balance on the student 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.

Required Documentation:
  - If the payment used for the monthly obligation is less than 1% of the outstanding balance AND less than the monthly payment reported on the borrower’s credit report, obtain written documentation of:
    - The actual monthly payment; and
    - The payment status; and
    - Evidence of the outstanding balance and terms from the creditor.

Tax Liens

Refer to Federal Debt for detailed requirements.

Minimum Required Investment (MRI)

- Borrowers must have sufficient cash to cover the required 3.5% minimum investment (MRI) from their own funds.
  - Closing costs, prepaid items and other fees may NOT be applied toward the borrower’s MRI.
  - POCs may only be applied toward the Borrower’s MRI if it is documented and verified that the POCs were paid with the Borrower’s own funds AND are being refunded by an interested party contribution.

- All funds that are used for the purpose of qualifying or closing must be documented, including those needed to satisfy debt or pay costs outside of closing.

- Determining the amount needed for closing:
  - Purchase transactions: The difference between the total cost to acquire the property and the total mortgage amount.
  - Refinance transactions: The difference between the total payoff requirements of the mortgage being refinanced and the total mortgage amount.

- Additional borrower expenses must be included in the total amount of cash that the borrower must provide at closing. They may include, but are not limited to, the following:
  - Customary and reasonable closing costs necessary to close the loan. Charges may not exceed the actual costs.
  - Discount points (if allowed per the applicable program).
  - Prepaid items may include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.
  - Non-realty of personal items (chattel) that the borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum mortgage.
  - If a borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the borrower’s settlement requirements.
• Repairs and improvements, or any portion paid by the borrower that cannot be included in the loan amount.
• The seller, any entity that may financially benefit from the transaction or any person who is reimbursed by a prohibited source may not provide funds for the required MRI. However, under certain conditions, the MRI may be provided by a Government Entity. Refer to Government Entity topic for additional details.

Source Requirements for the Minimum Required Investment (MRI)

• Purchase transactions require a MRI, in cash or its equivalent, of at least 3.5% of the Adjusted Value of the property
• Funds for the borrower's MRI may NOT come from any of the following sources:
  ▪ The property seller.
  ▪ Any other person or entity who financially benefits from the transaction (directly or indirectly).
  ▪ Any person(s) who is or will be reimbursed, directly or indirectly, by one of the previously listed ineligible sources.
  ▪ Note: The sources above may be provide funds to close, but not for the MRI.
• The source of the MRI must be documented according to HUD guidelines.
  ▪ A Governmental Entity is prohibited from providing the borrower's MRI if the loan is being originated through one of its homeownership programs. Refer to Government Entity for additional details.

Mortgage Insurance

• Mortgage Insurance is required on all loans. See the following charts for details on Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium, also referred to as the periodic or monthly Mortgage Insurance Premium (MIP).
• Maximum loan amounts and LTVs are based upon the amount prior to the financing of the UFMIP (base loan amount). The total mortgage amount may be increased by the financed UFMIP amount.
• THE UFMIP must be entirely financed into the mortgage (with the exception of any amount less than $1.00) or paid entirely 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.
• UFMIP is not refundable, except in connection with the refinancing to a new FHA insured mortgage.
• The UFMIP MUST be paid by the Correspondent within 10 calendar days of funding. Pacific Union Financial will verify that the UFMIP has been paid PRIOR to purchasing the loan.
• Pacific Union Financial will monitor the payment of the UFMIP to ensure that late charges and interest charges are not assessed to either the Correspondent or Pacific Union Financial.
  ▪ In the event the Correspondent pays the UFMIP more than 10 calendar days after funding, the Correspondent will be responsible for any and all associated late charges and interest charges.
  ▪ A consistent pattern of late UFMIP payments may result in termination of the Non-Delegated relationship with Pacific Union.
  ▪ Correspondent must provide an estimated funding date on the Submission Form which will be used to monitor the payment of the UFMIP.
FHA Loan Program Guide
Pacific Union Financial, LLC

- The Correspondent MUST pay the initial and subsequent MIP payments until Pacific Union Financial purchases the loan and servicing is transferred.
- If servicing is transferred prior to the 15th of the month that the loan is purchased, Pacific Union Financial will be responsible for the MIP payment due the month purchased and subsequent payments.
- Refer to the Correspondent Sponsorship and Requirements Guide for details regarding establishing a cash flow account within FHAC.

Mortgage Insurance Premiums

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Up-Front MIP</th>
<th>Annual MIP</th>
<th>Duration</th>
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<td>Term &gt;15 Years</td>
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<tr>
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<td>≤90%</td>
<td>1.75%</td>
<td>.80%</td>
<td>11 Years</td>
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<tr>
<td>Greater than $625,500</td>
<td>≤90%</td>
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<td>&gt;90% to ≤95%</td>
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<tr>
<td></td>
<td>Term ≤15 Years</td>
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</tr>
<tr>
<td>Less than or equal to $625,500</td>
<td>≤90%</td>
<td>1.75%</td>
<td>.45%</td>
<td>11 years</td>
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</tr>
<tr>
<td>Greater than $625,500</td>
<td>Not Allowed</td>
<td>Not Allowed</td>
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<tr>
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<td>&gt;90%</td>
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<td></td>
<td>.70%</td>
<td>Mortgage Term</td>
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Streamline Refinance and Simple Refinance (Effective with Case Numbers Assigned on or after September 14, 2015)

For refinance of previous mortgages endorsed on or before May 31, 2009

| All loan amounts | ≤90% | .01% | .55% | 11 Years |
|                 | >90%  |     | .55% | Mortgage Term |

Refund and Credit of Upfront Mortgage Insurance Premium (UFMIP)

- UFMIP is not refundable, except when refinancing to a new FHA-insured mortgage.
- If the borrower is refinancing their current FHA-insured mortgage prior to 36 monthly payments being made, a refund credit can be applied to reduce the amount of the UFMIP paid on the new refinance transaction, according to the refund schedule in the table below:

<table>
<thead>
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<th>Year</th>
<th>Month of Year</th>
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<tbody>
<tr>
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<td>1</td>
<td>80</td>
<td>78</td>
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<td>16</td>
<td>14</td>
<td>12</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>
Property Insurance

- All loan files must contain evidence of appropriate hazard, title and flood insurance policies in accordance with FHA policies. As a rule of thumb, insurance policies that comply with Fannie Mae policies are acceptable.
- The Correspondent must order a life of loan policy.

Secondary Financing

- Secondary financing is any financing other than the first mortgage that creates lien against the property.
- Any such financing that does create a lien against the property is not considered a gift or a grant, even if it does not require regular payment or has other features forgiving the debt.
- Documentation showing the amount of funds provided to the borrower for each transaction, the source of funds, and copies of the loan instruments is required.
- Secondary financing is permitted to finance closing costs and down payment provided:
  - The borrower is qualified with the debt as a long term obligation.
  - The lien is secured by the subject property and subordinate to the first lien.
  - The CLTV may not exceed the applicable FHA LTV limit, with the exception of subordinated financing provided by a family member, loans made by Governmental Entities (including HUD Approved Nonprofit Organizations), and Back to Work – Extenuating Circumstances transactions.

Governmental Entities

- A Governmental Entity refers to federal, state, local government, or instrumentalities.
- To be considered an Instrumentality of Government, the entity must be:
  - Established by a governmental body; or
  - Have governmental approval; or
  - Have designation by law or under special law to serve a particular public purpose.
- Section 115 Entities are considered Instrumentalities of the Government for the purpose of providing secondary financing.
- The entity does not have to be 501(c)(3) approved.
- FHA does not maintain a list of Governmental Entity program participants.
- No maximum CLTV.
- A second mortgage or lien made or held by a Governmental Entity is acceptable if:
  - The secondary financing is disclosed at the time of application;
  - No cost associated with the secondary financing are financed into the FHA insured first mortgage;
  - The insured first mortgage does not exceed the FHA Nationwide Mortgage Limits for the area in which the property is located;
  - Any secondary financing of the borrower's MRI fully complies with the additional requirements (link to or add details MRI requirements);
  - The secondary financing does not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing; and
- The second lien does not provide for a balloon payment within 10 years from the date of execution.

**Nonprofit Organizations**
- Nonprofits assisting a Governmental Entity in the operation of its secondary financing program must have HUD approval and appear on the Nonprofit Organization Roster, unless there is a documented agreement that:
  - The functions performed are limited to the Governmental Entity’s second financing program; and
  - The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.
    - Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD approved Nonprofit.
- HUD-approved Nonprofits information must be entered into FHAC, as applicable.

**Family Members**
- FHA will insure a first mortgage on a property that has a second mortgage or lien held by a family member, if:
  - The secondary financing is disclosed at the time of application;
  - No cost associated with the secondary financing are financed into the FHA insured first mortgage;
  - The secondary financing payments are included in the total mortgage payment;
  - The insured first mortgage does not exceed the FHA Nationwide Mortgage Limits for the area in which the property is located;
  - Secondary financing maybe used to meet the borrower’s MRI;
  - The CLTV ratio of the base loan amount and the secondary financing does not exceed 100% of the Adjusted Value;
  - The secondary financing does not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing; and
  - The second lien does not provide for a balloon payment within 10 years from the date of execution;
  - Any periodic payment are level and monthly;
  - There 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 the sale of the property;
    - If documentation from the bank or other savings account is not available, the family must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the mortgagee.
  - 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 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.

**Private Individuals and Other Organizations**

- Property that has a second mortgage or lien held by private individuals and other organizations is allowed if:
  - The secondary financing is disclosed at the time of application;
  - No cost associated with the secondary financing are financed into the FHA insured first mortgage;
  - The secondary financing payments must be included in the total mortgage payment;
  - The secondary financing must not result in cash back to the borrower except for refund or earnest money deposit or other borrower costs paid outside of closing;
  - The secondary financing may not be used to meet the borrower's MRE;
  - The CLTV ratio of the base loan amount and secondary financing amount 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 10 years of the date of execution;
  - Any periodic payments are level and monthly;
  - There is no prepayment penalty, after giving the mortgagee 30 days advance notice.

**Transactions**

**Purchase Transactions**

- Property must be occupied by the borrower as their primary residence.
- Occupancy must take place within 60 days after signing the security instrument, with continued occupancy for one year.
- The property must be purchased from the owner of record, regardless of the time between resales. The transaction may not involve any sale or assignment of the sales contract.
  - Documentation verifying that the seller is the owner of record is required and may include, but is not limited to:
    - A property sales history report;
    - A copy of the recorded deed from the seller; or
    - Other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the property and the date it was acquired.
- All purchasers listed on the sales contract must be parties to the loan, with the exception of a family member. A family member who is not a borrower may be listed on the sales contract without modification or removal.
  - Non-purchasers that are also non-family members may not be party to the contract. An addendum or modification may be used to remove or correct any provision of the sales contract that do not conform to this requirement.
TOTAL Scorecard
TOTAL Scorecard ‘Accept’ recommendations must be downgraded to a Refer and manually underwritten if any mortgage tradeline, including mortgage line-of-credit payments, reflect the payment history stated below.

Manual Underwriting
- Purchase transactions must be manually underwritten if any mortgage tradeline, including mortgage line-of-credit payments, reflect the following history during the most recent 12 months:
  - 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;
  - One payment greater than 90 days late.
- If any of the late payment history scenarios noted above apply, the transaction is eligible only if acceptable compensating factor(s) exist.

Maximum Loan Amount for Purchases
- Purchase transactions require a Minimum Required Investment (MRI) of at least 3.5% of the Adjusted Value of the property.
- The Adjusted Value is the lesser of:
  - The purchase price less any inducements to purchase; or
  - The property value.
- Refer to the Loan to Value (LTV) Matrices to determine the maximum LTV percentage based on the transaction type.
- Loan amounts cannot exceed the Nationwide Mortgage Limits, the nationwide area mortgage limit, or the maximum LTV ratio.
- Property Assessed Clean Energy (PACE) subordinate loans are not allowed.

Refinance Transactions
- 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.
- FHA to FHA refinances may be used with any refinance type.
- An FHA Refinance Authorization Number is required.
- The Adjusted Value is determined for refinance transactions as follows:
  - 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 subsequent to the purchase; or
    - The property 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 utilize the calculation of Adjusted Value for properties purchased 12 months or greater.
  - Properties acquired by the borrower greater than or equal to 12 months prior to the case number assignment date, the Adjusted Value is the property value.
- The existing mortgage payoff statement is required. The existing mortgage outstanding balance may include per diem interest charged as follows:
  - 30 days interest for the month preceding the month of closing, and
- Per Diem interest through the payoff date only.
- Properties that are subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state are not eligible to be refinanced.
  - If the property is located in an area that is subject to eminent domain condemnation or seizure, the borrower must provide a certification stating that the subject is not included in such seizure actions.

**Cash-Out Refinance**
- A cash-out transaction is a refinance of any mortgage or a withdrawal of equity where no mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.
  - Cash out may be used of any purpose. However, cash out used for debt consolidation may represent a higher level of risk and must be carefully evaluated.
  - Refer to Revolving Debt for additional guidance.
  - Paying off an installment debt for qualifying purposes is acceptable. It is not acceptable to pay down an installment debt for the purpose of omitting the payment. Refer to Installment Debt for additional guidance.
- Full appraisal required
- Loans must be evaluated using TOTAL Scorecard.
- Non-occupying co-borrower may not be added. Any borrowers that are added to the loan must occupy the property.
  - Income from a non-occupant co-borrower may not be used for qualifying purposes.
- 1-4 unit Primary Residence only
  - Property must have been owned and occupied by the borrower for 12 months prior to the case number assignment date, with the exception of an inherited property.
  - The borrower is not required to own an inherited property for a minimum period of time, if the property was not treated as an investment property at any point since inheritance of the property.
  - If the inherited property was treated as an investment property within the 12 months prior to the case number assignment, the borrower has to occupy the property for at least 12 months to be eligible for a cash-out refinance.
  - Properties that are owned free and clear are eligible for FHA cash out refinance, if they meet the requirements noted above.
  - Employment documentation or utility bills are required to evidence that the borrower has occupied the subject property during the 12 month occupancy requirement period.

**TOTAL Scorecard**
TOTAL Scorecard ‘Accept’ recommendations must be downgraded to a Refer and manually underwritten if any mortgage tradeline, including mortgage line-of-credit payments, reflect the payment history below.
Manual Underwriting

- All mortgages secured by the subject property must have been paid within the month due for the month prior to closing and for the previous 12 months or since the borrower obtained the mortgage, whichever is less.
  - If the subject property is not reported on the borrower’s credit report or is not in the name of the borrower, verification of mortgage, bank statements or other documentation are required to evidence that all the payment have been made on time.
- See Modified Mortgage and/or Restructured Mortgages/Short Payoff for additional requirements.

Secondary Financing

- New subordinated financing is not allowed.
- Modifying an existing subordinate lien to lower the total indebtedness is not considered a new subordinate lien and may remain in place.
  - New or existing Property Assessed Clean Energy (PACE) loans are not allowed.
- If the secondary financing is an equity line, the maximum amount of the equity line is used in the calculating the CLTV.
- The combined mortgage amount cannot exceed the Nationwide Mortgage Limits.

Net Tangible Benefit

The refinance must provide a net tangible benefit as required by any state or local regulation.

No Cash-Out Refinance

A no cash-out transaction is a refinance of any mortgage in which the mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction.

Rate/Term Refinance

- All proceeds must be used to pay existing mortgage liens on the subject property and costs associated with the transaction.
- May be used to pay off an existing FHA, VA or Conventional first lien.
- 1-4 unit Primary Residence and HUD approved second homes.
  - Employment documentation or utility bills must be obtained as evidence that the borrower currently occupies the property and to determine the length of time the borrower has occupied the subject property as their principal residence.
- Full appraisal required.

TOTAL Scorecard

- The mortgage must be downgraded to a Refer and manually underwritten if any mortgage tradeline, 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;
  - One payment greater than 90-day days late.
Manual Underwriting

- For all mortgages on all properties:
  - If less than six months of mortgage payment history, the borrower must have made all mortgage payments within the month due
  - If greater than six months mortgage payment history, the borrower must have made all mortgage payments within the month due for the six months prior to case number assignment and have no more than one 30 day late payment for the previous six months.
  - The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.

- If the mortgage on the subject property is not reported on the borrower’s credit report, a verification of mortgage must be obtained to evidence the previous 12 months mortgage payment history.

- See Modified Mortgage and/or Restructured Mortgages/Short Payoff for additional requirements.

Maximum Mortgage Amount

- Maximum LTV/CLTV ratio:
  - 97.75% for principal residence occupancy during the previous 12 month or since acquisition if acquired within 12 months, based on the case number assignment date; or
  - 85% for principal residence occupancy less than 12 months prior to the case number assignment date or if owned less than 12 months and the property has not been occupied for that entire period of ownership.; or
  - 85% for all HUD approved second homes.

- The maximum mortgage amount is the lesser of:
  - The Nationwide Mortgage Limit;
  - The maximum LTV based on the maximum LTV ratios above;
  - The sum of existing debt and costs associated with the transaction. Existing debt includes the following:
    - The unpaid principal balance of the first mortgage as of the month prior to mortgage disbursement;
    - The unpaid principal balance of any purchase money junior mortgages as of the month prior to mortgage disbursement;
    - The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage disbursement. Refer to Secondary Financing for additional details.
    - Buying out an existing titleholder’s equity (ex-spouse or co-borrower). A divorce decree, settlement agreement, or other legally enforceable equity agreement is required to document the equity awarded to the titleholder.
      - If the borrower is newly separated and no property settlement agreement has been prepared, a legally recorded document prepared by an attorney specifically outlining the division of equity is acceptable to HUD;
      - Interest due on the existing mortgage(s);
      - MIP due on the existing mortgage;
      - Any prepayment penalties assessed;
      - Late charges; and
      - Escrow shortages;
    - All borrower paid costs associated with the new mortgage; and
    - Any borrower paid repairs required by the appraisal;
- Minus any refund of the UFMIP, if financed in the original mortgage.
- Delinquent interest or late charges may not be included in the outstanding principal balance of the mortgage being paid off for the maximum mortgage calculation.
- Borrower may not receive more than $500 cash back at closing. When estimated costs and fees utilized in calculating the maximum loan amount will result in greater than $500 cash back at closing, the amount over $500 must be applied as a principal reduction. The loan must be submitted for endorsement at the reduced principal amount.
- Cash back resulting from the refund of the borrower’s unused escrow balance from the previous mortgage must not be considered in the $500 cash back limit whether received at or subsequent to closing.
- When the purpose of the new mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance must be used as the outstanding balance on the recorded land contract.
- For short payoffs are eligible, if the existing note holder writes off the amount of the indebtedness that cannot be included in the maximum mortgage amount.
- When the purpose of the new loan is to buy out an existing titleholder’s equity, the specified equity to be paid is considered property-related indebtedness and is eligible to be included in the new mortgage calculation.
- A divorce decree, settlement agreement, or another legally enforceable equity agreement is required to document the equity awarded to the title-holder.

Secondary Financing

- Subordinate liens (including credit lines), regardless of seasoning, may remain outstanding provided the combined liens do not exceed 97.75.
- New or existing Property Assessed Clean Energy (PACE) loans are not allowed.
- If the existing debt of a subordinate lien includes any portion of an equity line of credit (HELOC) in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the portion above and beyond $1,000 is not eligible for inclusion in the new mortgage.
- The maximum credit limit on a HELOC is used to calculate the CLTV.

### Streamline and Simple Refinances

<table>
<thead>
<tr>
<th>Simple Refinance, aka Credit Qualifying Streamline with an Appraisal</th>
<th>Credit Qualifying Streamline Without an Appraisal</th>
<th>Non-Credit Qualifying Streamline without an Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL Scorecard submission required. <strong>NOTE:</strong> Simple Refinance transactions must be entered in the LOS as a Rate and Term (No Cash-Out) refinance. The MIP amount shown on the findings will not be correct. Verification of the correct MIP is required and must match the amounts in the LOS.</td>
<td>Manual underwriting is required on all streamlines refinance transactions. If the loan is inadvertently submitted to an AUS, manual underwriting is still required and the underwriter’s CHUMS ID must be entered on the 92900-A and 92900-LT. A streamline may be submitted to TOTAL Scorecard, but the findings will be invalid.</td>
<td></td>
</tr>
</tbody>
</table>
### Simple Refinance, aka Credit Qualifying Streamline with an Appraisal

- A fully completed loan application (1003) is required.
- Refer to [Minimum Decision Credit Score (MDCS) and LTV Matrix](#) for credit score requirements.

### Credit Qualifying Streamline Without an Appraisal

- An abbreviated 1003 is allowed. The following sections of the 1003, DO NOT have to be completed:
  - IV. Employment Information,
  - A VOE or VVOE is not required when an abbreviated URLA is utilized and employment is not disclosed
  - V. Monthly Income and Combined Housing Expense Information,
  - VI. Assets and Liabilities, and
  - VIII. Declarations (a) through (k)

### Non-Credit Qualifying Streamline without an Appraisal

- Owner occupied, investment property or HUD approved secondary residence
- Review of the borrower’s employment documentation or obtain utility bills to evidence the Borrower currently occupies the property as their principal residence
- Obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.

A payoff statement and Refinance Authorization Number from FHA Connection (FHAC), are required.

<table>
<thead>
<tr>
<th>Appraisal required</th>
<th>No appraisal required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner occupied or HUD approved secondary residence</td>
<td>Owner occupied, investment property or HUD approved secondary residence</td>
</tr>
<tr>
<td>Review of the borrower’s employment documentation or obtain utility bills to evidence the Borrower currently occupies the property as their principal residence</td>
<td>Review of the borrower’s employment documentation or obtain utility bills to evidence the Borrower currently occupies the property as their principal residence</td>
</tr>
<tr>
<td>Obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.</td>
<td>Obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.</td>
</tr>
</tbody>
</table>

At least one borrower from the existing mortgage must remain as a borrower on the new mortgage.

### Credit report

- Required
- NOT required, but may be obtained for improved pricing.

- All borrowers on the existing mortgage must remain as borrowers on the new mortgage.
- Exceptions - A borrower may be removed from title and the new loan in cases of divorce, legal separation or death when:
  - The divorce degree or legal separation agreement awarded the property and responsibility for payment
<table>
<thead>
<tr>
<th>Simple Refinance, aka Credit Qualifying Streamline with an Appraisal</th>
<th>Credit Qualifying Streamline Without an Appraisal</th>
<th>Non-Credit Qualifying Streamline without an Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>to the remaining borrower, if applicable; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ The remaining borrower can demonstrate that they have made the mortgage payments for a minimum of six months prior to case number assignment.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Individuals may be added to the title and mortgage on a Non-Credit Qualifying Streamline without a creditworthiness review.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Mortgages that have been assumed are eligible provided the previous borrower was released from liability.</td>
<td></td>
</tr>
<tr>
<td>• Effective with loans locked on or after November 8, 2016:</td>
<td>• Effective with loans locked on or after November 8, 2016:</td>
<td>• Six consecutive monthly payments are required prior to case number assignment date.</td>
</tr>
<tr>
<td>▪ TOTAL Scorecard submissions and manually underwritten Simple Refinance: six consecutive monthly payments are required prior to the case number assignment date. All payments must have been made within the month due.</td>
<td>▪ Six consecutive monthly payments are required prior to the case number assignment date. All payments must have been made within the month due.</td>
<td>&gt;Six months prior to case number assignment date.</td>
</tr>
<tr>
<td>▪ For manually underwritten Simple Refinance transactions, for all mortgages on all properties:</td>
<td>▪ &gt;Six months prior to case number assignment: For all mortgages on all properties, the borrower must have made all mortgage payments within the month due for the six months prior to case number assignment date and have no more than one 30 day late payment for the previous six months.</td>
<td>&gt;Six months prior to case number assignment date – no more than one 30-day late payment allowed for the previous six months for all mortgages on the subject property.</td>
</tr>
<tr>
<td>▪ &gt;Six months – all payments must have been made within the month due for the six months prior to case number assignment date and have no more than one 30-day late payment during the previous six months for all mortgages.</td>
<td>▪ &gt;For all mortgages secured by the subject property, payments must have been made within the month due for the month prior to mortgage disbursement.</td>
<td>▪ For all mortgages secured by the subject property, payments must have been made within the month due for the month prior to mortgage disbursement.</td>
</tr>
<tr>
<td>▪ Payments must be made within the month due for the month prior to mortgage disbursement, for all mortgages secured by the subject property.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Credit report or VOM required to evidence applicable payment history.
### Simple Refinance, aka Credit Qualifying Streamline with an Appraisal

- 97.75% LTV /CLTV - Principal Residences; and
- 85% LTV/CLTV - HUD-approved Secondary Residences.

### Credit Qualifying Streamline Without an Appraisal

- LTV based on maximum mortgage amount calculations detailed below
- Unlimited CLTV

### Non-Credit Qualifying Streamline without an Appraisal

- The maximum amortization period is limited to the lesser of:
  - The remaining amortization period of the existing mortgage plus 12 years; or
  - 30 years.
  - Note: Pacific Union only allows terms in increments of 5 years.

#### Effective with loans locked on or after November 8, 2016:

- The Borrower must have made at least six payments on the FHA-insured Mortgage that is being refinanced; and
- At least six full months must have passed since the first payment due date of the Mortgage that is being refinanced.

---

<table>
<thead>
<tr>
<th>May include costs associated with the transaction</th>
<th>May NOT include costs associated with the transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>The maximum mortgage amount for a Simple Refinance is the lesser of:</td>
<td>For all Streamline refinance transactions, funds to close in excess of the total mortgage payment of the new mortgage (PITI) must be documented and verified.</td>
</tr>
<tr>
<td>- The Nationwide Mortgage Limit;</td>
<td>The maximum mortgage amount for principal residence and second homes Streamline Refinance transactions:</td>
</tr>
<tr>
<td>- The maximum LTV ratio from above; or</td>
<td>- The lesser of:</td>
</tr>
<tr>
<td>- The sum of existing debt and costs associated with the transaction including:</td>
<td>- The outstanding principal balance of the existing mortgage as of the month prior to mortgage disbursement; plus:</td>
</tr>
<tr>
<td>- Unpaid principal balance of the FHA-insured first Mortgage as of the month prior to mortgage Disbursement;</td>
<td>- Interest due on the existing mortgage; and</td>
</tr>
<tr>
<td>- Interest due on the existing Mortgage;</td>
<td>- MIP due on existing mortgage; or</td>
</tr>
<tr>
<td>- MIP due on existing Mortgage;</td>
<td>- The original principal balance of the existing mortgage (including financed UFMIP);</td>
</tr>
<tr>
<td>- Late charges; and</td>
<td>- Less any refund of UFMIP (if financed in original Mortgage).</td>
</tr>
<tr>
<td>- Escrow shortages.</td>
<td>The maximum mortgage amount for investment properties Streamline Refinance transactions:</td>
</tr>
<tr>
<td>- Allowed costs - include all Borrower paid costs associated with the new Mortgage;</td>
<td>- The lesser of:</td>
</tr>
<tr>
<td>- Borrower paid repairs required by the appraisal;</td>
<td>- The outstanding principal balance of the existing mortgage as of the month prior to mortgage disbursement; or</td>
</tr>
</tbody>
</table>

For all Streamline refinance transactions, funds to close in excess of the total mortgage payment of the new mortgage (PITI) must be documented and verified.

The maximum mortgage amount for principal residence and second homes Streamline Refinance transactions:

- The lesser of:
  - The outstanding principal balance of the existing mortgage as of the month prior to mortgage disbursement; plus:
  - Interest due on the existing mortgage; and
  - MIP due on existing mortgage; or
  - The original principal balance of the existing mortgage (including financed UFMIP);
  - Less any refund of UFMIP (if financed in original Mortgage).

The maximum mortgage amount for investment properties Streamline Refinance transactions:

- The lesser of:
  - The outstanding principal balance of the existing mortgage as of the month prior to mortgage disbursement; or
  - The original principal balance of the existing mortgage (including financed UFMIP);
  - Less any refund of UFMIP (if financed in original Mortgage).
<table>
<thead>
<tr>
<th>Simple Refinance, aka Credit Qualifying Streamline with an Appraisal</th>
<th>Credit Qualifying Streamline Without an Appraisal</th>
<th>Non-Credit Qualifying Streamline without an Appraisal</th>
</tr>
</thead>
</table>
| • Less any refund of UFMIP (if financed in original Mortgage).
• If cash to close is required, funds must be verified. | • Borrower may not receive more than $500 cash back at closing. When estimated costs and fees utilized in calculating the maximum loan amount will result in greater than $500 cash back at closing, the amount over $500 must be applied as a principal reduction. The loan must be submitted for endorsement at the reduced principal amount.
  ▪ Cash back resulting from the refund of the borrower’s unused escrow balance from the previous mortgage must not be considered in the $500 cash back limit whether received at or subsequent to closing.
• Contact the National Servicing Center for processing of any HUD held lien subordination.
  ▪ Existing subordinate financing, in place at the time of case number assignment, must be re-subordinated.
  ▪ New subordinate financing is permitted only where the proceeds of the subordinate financing are used to:
     Reduce the principal amount of the existing FHA-insured mortgage; or
     Finance the origination fees, other closing costs, or discount points associated with the refinance. | **No NTB requirements**
**NTB requirements must be met**
LDP List and SAM check required

**Full credit qualifying required**

- The following guidance does not apply:
  ▪ Ordering Appraisal
  ▪ Transferring Existing Appraisal
  ▪ Ordering Second Appraisal
  ▪ Ordering an Update to an Appraisal
  ▪ Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
  ▪ Delinquent Federal Tax Debt
  ▪ Property Eligibility and Acceptability Criteria
  ▪ National Housing Act’s Statutory Limits
  ▪ Nationwide Mortgage Limits
  ▪ LTV Limitations Based on Borrower’s Credit Score
  ▪ Underwriting the Property
  ▪ Underwriting the Borrower Using the TOTAL Mortgage Scorecard

- The following guidance does not apply:
  ▪ Ordering Appraisal
  ▪ Transferring Existing Appraisal
  ▪ Ordering Second Appraisal
  ▪ Ordering an Update to an Appraisal
  ▪ Borrower Minimum Decision Credit Score
  ▪ Borrower and Co-Borrower Ownership and Obligation Requirements
  ▪ Cosigner Requirements
  ▪ Principal Residence in the United States
  ▪ Military Personnel Eligibility
  ▪ Citizenship and Immigration Status
  ▪ Residency Requirements
  ▪ Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
  ▪ Delinquent Federal Tax Debt
  ▪ Property Eligibility and Acceptability Criteria
  ▪ National Housing Act’s Statutory Limits
  ▪ Nationwide Mortgage Limits
### Net Tangible Benefit (NTB)

- Streamline refinance transactions must provide a net tangible benefit (NTB) as required by any state or local regulation.
  - Simple refinance transactions are NOT required to meet NTB requirements.
- A NTB is a reduced combined rate, a reduced term and/or a change from an ARM to a fixed rate mortgage that results in a benefit to the borrower.
- Combined rate refers to the interest rate on the mortgage plus the MIP rate.
- NTB requirements are as follows:

<table>
<thead>
<tr>
<th>From</th>
<th>Fixed Rate New Combined Rate</th>
<th>One-Year ARM New Combined Rate</th>
<th>Hybrid ARM New Combined Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>To At least 0.5 percentage points below the prior combined rate.</td>
<td>At least 2 percentage points below the prior combined rate.</td>
<td>At least 2 percentage points below the prior combined rate.</td>
</tr>
<tr>
<td>Any ARM with less than 15 months to next payment change date.</td>
<td>To No more than 2 percentage points above the prior combined rate.</td>
<td>At least 1 percentage point below the prior combined rate</td>
<td>At least 1 percentage point below the prior combined rate.</td>
</tr>
<tr>
<td>Any ARM with greater than or equal to 15 months to next payment change date.</td>
<td>To No more than 2 percentage points above the prior combined rate.</td>
<td>At least 2 percentage points below the prior combined rate.</td>
<td>At least 1 percentage point below the prior combined rate.</td>
</tr>
</tbody>
</table>

**Note:** A reduction in the mortgage term alone qualifies as a NTB, if 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 increase by more than $50.
Refinance of Borrowers in Negative Equity Positions (aka Short Refinance)

- **For case numbers assigned on or before December 31, 2016**, the Short Refinance program allows refinancing of a non-FHA insured mortgage in which the borrower is in a negative equity position.
- The borrower must be current on the existing non-FHA insured mortgage to be refinanced and the lien holder must write off at least 10% of the existing first lien mortgage unpaid principal balance.
  - The borrower must be in a negative equity position and may not have an existing FHA insured mortgage.
- All borrower(s) must occupy the subject property (1-4 units) as their primary residence.
- Maximum 97.75% LTV / 115% CLTV (new or re-subordinated)
- Borrower must fully complete and execute Form HUD-92918, FHA Refinance of Borrowers in Negative Equity Positions Borrower Certification.
- Standard FHA underwriting requirements apply, with the exception of the following:
  - The existing mortgage to be refinanced may not have been brought current by the existing first lien holder.
  - Debt-to-Income Ratios, for loans that receive a Refer recommendation and/or are manually underwritten:
    - Maximum 31% total mortgage payment, including the first and any subordinate mortgage(s); and
    - Maximum 50% total debt, including all recurring debts.
  - **Exception:** The borrower’s monthly total mortgage payment may be up to 35% of gross monthly income if their total debt does not exceed 48% of the gross monthly income.
- **New Mortgage:**
  - The existing first lien holder must write off at least 10% of the unpaid principal balance of the mortgage that is being refinanced.
  - The transaction must be entered in FHAC as a “conventional to FHA refinance non-delinquent” and the applicable FHAC ADP Code.
- Premium pricing is not permitted to payoff existing debt obligations for qualifying purposes or otherwise bring the existing mortgage current for eligibility purposes.

### Section 203(h) for Disaster Victims

<table>
<thead>
<tr>
<th>Topic</th>
<th>Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>203(h) loans are made to victims whose previous residence (owned or rented) was located in a Presidentially-Declared Major Disaster Area (PDMDA) and the property was destroyed or damaged to such an extent that replacement is necessary.</td>
</tr>
<tr>
<td></td>
<td>Purchase transactions only.</td>
</tr>
<tr>
<td></td>
<td>Primary residence only, the subject property must be a Single-Family Property or a unit in an FHA-approved Condominium Project.</td>
</tr>
<tr>
<td></td>
<td>The borrower is not required to purchase a new property within the area of the damaged or destroyed property.</td>
</tr>
<tr>
<td></td>
<td>Manual underwriting is required. Section 203(h) loans may not be submitted to DU or LPA.</td>
</tr>
<tr>
<td></td>
<td>Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program, with the exception of the specific 203(h) guidance detailed below.</td>
</tr>
</tbody>
</table>
### LTV/CLTV and Minimum Credit Score (MDCS) Matrix

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Credit Score</th>
<th>LTV</th>
<th>CLTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>620</td>
<td>100%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>580</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. 15 and 30-year Fixed Rate Conforming Balance and 30 year Fixed Rate High Balance transactions allowed.
2. LTV may not exceed 100% of the Adjusted Value.

### FHA Case Number Assignment

- The FHA case number must be assigned within one year of the date that the PDMDA is declared, unless an additional period of eligibility is provided.
- The following selections apply when ordering a 203(h) FHA case number:
  - ADP Code: Same as the appropriate 203(b) code
  - Program ID: 02 – Disaster Housing
  - Housing Program (Section of the Act): FHA Standard Mortgage Program 203(b)

### Documentation

- The loan file must include evidence that the borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that replacement housing is necessary.
- A list of the specific affected areas and the corresponding disaster declarations is provided by the Federal Emergency Management Agency (FEMA).
- When traditional documentation is unavailable, alternative documentation may be used as detailed below. If specific requirements are not provided below, reasonable and prudent alternative documentation may be used.
  - The loan file must include evidence that an attempt to obtain traditional documentation was made.

#### Assets
If traditional asset documentation is not available, statements downloaded from the borrower's financial institution's website is acceptable for verification of sufficient funds to close.

#### Income
- If prior employment cannot be verified because records were destroyed due to the disaster and the borrower is in the same/similar field of work, obtain W-2s and tax returns from the IRS to confirm prior employment and income.
- Income from short-term employment following the disaster may be considered effective income.
### Credit

**Prior to the disaster**
Loans must be underwritten in accordance with 203(b) program requirements. Borrowers with no credit or insufficient credit must meet non-traditional credit requirements.

**After the disaster**
- Borrowers with derogatory credit should be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.
  - Non-traditional credit is required if the borrower has no credit or insufficient credit after the disaster.
- Late housing payments on the property destroyed or damaged in the disaster may be disregarded if the late payments were a result of the disaster and the borrower was not three or more months delinquent on their housing payment at the time of the disaster.
- If the borrower’s housing payment was three or more months delinquent at the time of the disaster, approval must be justified by obtaining documented extenuating circumstances.

### Liabilities
When a borrower is purchasing a property, the mortgage payment for the destroyed residence located in the PDMDA may be excluded if information is obtained to evidence that the borrower is working with the servicing mortgagee to appropriately address their mortgage obligation and apply any insurance proceeds to the mortgage of the damaged house.

### Features and Transaction Types

<table>
<thead>
<tr>
<th>Eligible</th>
<th>Ineligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual Underwriting is required</td>
<td>203(h) loans submitted to DU or LPA</td>
</tr>
<tr>
<td>Purchase transactions only</td>
<td>2-4 unit properties</td>
</tr>
<tr>
<td>Primary residence only, the subject property must be a Single Family Property or a unit in an FHA-approved Condominium Project.</td>
<td>Adjustable Rate Mortgage (ARM) loans</td>
</tr>
</tbody>
</table>

### Pricing and Fees
Refer to the daily rate sheet for current pricing.

### Escrow Waivers
Not permitted
Fees

- For charges related to services performed by a third party, the amount paid by the borrower must be limited to the actual fee charged by the third party.

Escrow Netting – Refinance Transactions

- Not allowed

Product Codes

See [Product Code Master List](#)

Appendix

Documentation Matrix

The following table lists the most commonly used forms and certifications required by FHA. Additional certifications and or documents may be required depending upon the scenario.

<table>
<thead>
<tr>
<th>Purchase</th>
<th>Refinance</th>
<th>FHA Form#</th>
<th>Form Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required</td>
<td>Required</td>
<td>HUD-92800-5B</td>
<td>Conditional Commitment Direct Endorsement Statement of Appraised Value</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Purchase transactions, if not provided prior to the borrower signing the sales contract, see Real Estate Certificate/Amendatory Clause.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Must be provided for purchase transactions with the exception of the following:</td>
</tr>
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<td>• HUD REO;</td>
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<td>• Sales in which the seller is Fannie Mae or Freddie Mac, VA USDA or other federal, state and local government agencies;</td>
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<td></td>
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<td>• A mortgagee disposing of REO assets;</td>
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<td></td>
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<td>• A seller at a foreclosure sale; or</td>
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<td></td>
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<td></td>
<td>• Sales in which the borrower will not be an owner occupant.</td>
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<td></td>
<td></td>
<td></td>
<td>• Refinance transactions, if an appraisal is obtained.</td>
</tr>
</tbody>
</table>

| Required | Required | HUD-92900-A | HUD/VA Addendum to Uniform Residential Loan Application |
|          |          |             | • All transactions. |
|          |          |             | • Borrower(s) must sign Part IV. Document will be used to verify the Borrower(s) SSN with the Social |

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<table>
<thead>
<tr>
<th>Purchase</th>
<th>Refinance</th>
<th>FHA Form#</th>
<th>Form Name</th>
<th>When Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required</td>
<td>Required</td>
<td>HUD-92900-LT</td>
<td>FHA Loan Underwriting and Transmittal Summary</td>
<td>All transactions</td>
</tr>
<tr>
<td>Required</td>
<td>Not Required</td>
<td>HUD-92900-B</td>
<td>Important Notice to Homebuyers</td>
<td>• All purchase transactions</td>
</tr>
<tr>
<td></td>
<td>Required</td>
<td></td>
<td>Informed Consumer Choice Disclosure</td>
<td>The original form must be retained in the file.</td>
</tr>
<tr>
<td></td>
<td>Not Required</td>
<td>HUD-92561</td>
<td>Borrower’s Contract with Respect to Hotel and Transient Use of Property</td>
<td>• A single family dwelling that is one of a group of five or more dwellings owned by the borrower within a two block radius; or; • All 2-4 unit transactions.</td>
</tr>
<tr>
<td></td>
<td>Not Required</td>
<td></td>
<td>Real Estate Certification / Amendatory Clause</td>
<td>Amendatory Clause:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• If the HUD-92800-5B is not provided prior to the borrower signing the sales contract, the Amendatory Clause must be provided on purchase transaction with the exception of the following: ▪ HUD REO; ▪ Sales in which the seller is Fannie Mae or Freddie Mac, VA USDA or other federal, state and local government agencies; ▪ A mortgagee disposing of REO assets; ▪ A seller at a foreclosure sale; or ▪ Sales in which the borrower will not be an owner occupant.</td>
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<td>Must include the actual dollar amount of the. Increases to the sale price require a revised amendatory clause.</td>
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<td>Real Estate Certification:</td>
</tr>
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<td></td>
<td>• Must be signed by the borrower, seller, and the real estate agent(s) or broker(s) involved in the sales transaction.</td>
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<td></td>
<td>• Certification is not needed if the sale contract contains the required certification.</td>
</tr>
<tr>
<td>Purchase</td>
<td>Refinance</td>
<td>FHA Form#</td>
<td>Form Name</td>
<td>When Required</td>
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<tr>
<td>Required</td>
<td>Required</td>
<td>IRS Form 4506-T</td>
<td>Request for tax transcripts</td>
<td>Purchase transactions only. Must include all borrower(s) on the 1003. An addendum or modification may be used to remove or correct the sales contract to comply with this requirement.</td>
</tr>
<tr>
<td>Required</td>
<td>Not Required</td>
<td></td>
<td>Sales Contract</td>
<td>Purchase transactions for properties built before 1978. The borrower must be provided a Protect your Family from Lead in Your Home pamphlet. Borrower must be given 10 days from the date the contract is signed to obtain a lead-based paint inspection. The sales contract must contain an attachment signed and dated by both the seller and purchaser that includes: A lead warning statement. Seller’s disclosure and records/reports of the presence of any known lead based paint and/or lead based paint hazards or indication of no knowledge of such presence. Affirmation that the borrower received the pamphlet, disclosures and records of reports.</td>
</tr>
<tr>
<td>Required</td>
<td>Not Required</td>
<td></td>
<td>Lead-Based Paint</td>
<td>Must be provided to prospective borrowers at first contact, be it for prequalification, pre-approval, or initial application.</td>
</tr>
<tr>
<td>Required</td>
<td>Not Required</td>
<td>HUD 92564-CN</td>
<td>For Your Protection: Get a Home Inspection</td>
<td></td>
</tr>
</tbody>
</table>