



## PLAZA HOME MORTGAGE, INC.

### FHA Fixed and ARM

#### **Program Description**

The Federal Housing Administration (FHA) was established as a division of the U.S. Department of Housing and Urban Development (HUD) in 1934 to expand national homeownership opportunities, increase minority homeownership, make the home buying process less complicated and expensive and keep existing homeowners from losing their homes. The FHA administers a variety of residential mortgage insurance programs. This mortgage program is a fully amortizing program that is available for fixed rate loans and for fixed period ARMs.

**Note:** The information contained in these guidelines is provided for informational purposes only. Direct Endorsement underwriters must refer to the HUD Handbook 4155.1 for details on underwriting FHA loans. <http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/41551HSGH.pdf>

#### **Loan Term & Program Codes**

Program Name	Program Code
FHA 15 Yr Fixed	FHA150
FHA 15 Yr Fixed (Investor Specific)	FHA1510
FHA 15 Yr Fixed <a href="#">Streamline</a>	FHA15S
FHA 20 Yr Fixed	FHA200
FHA 20 Yr Fixed <a href="#">Streamline</a>	FHA20S
FHA 25 Yr Fixed	FHA250
FHA 25 Yr Fixed <a href="#">Streamline</a>	FHA25S
FHA 30 Yr Fixed	FHA300
FHA 30 Yr Fixed (Investor Specific)	FHA3010
FHA 30 Yr Fixed <a href="#">Streamline</a>	FHA30S
FHA 30 Yr Fixed Energy Efficient Mortgage	FHA300EM
FHA 30 Yr Fixed Good Neighbor Next Door	FHA300GN
FHA 30 Yr Fixed HUD REO	FHA300RE
FHA 3 Yr ARM (Owner occupied & full doc only)	FHA31T
FHA 5 Yr ARM (Owner occupied & full doc only)	FHA51T
FHA 15 Yr Fixed <a href="#">High Balance</a>	FHA150HB
FHA 30 Yr Fixed <a href="#">High Balance</a>	FHA300HB
FHA 30 Yr Fixed <a href="#">High Balance</a> (Investor Specific)	FHA3010HB
FHA 30 Yr Fixed <a href="#">High Balance</a> Streamline	FHA300HBS
FHA 30 Yr Fixed <a href="#">High Balance</a> Energy Efficient Mortgage	FHA300HBEM
FHA 30 Yr Fixed <a href="#">High Balance</a> Good Neighbor Next Door	FHA300HBGN
FHA 30 Yr Fixed <a href="#">High Balance</a> HUD REO	FHA300HBRE

For FHA 203(k) Streamline loans, see the [FHA 203\(k\) Program Guidelines](#).



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### Loan Programs and Descriptions

#### Section 203(b) – Mortgage Insurance for One-to-Four Family Homes

FHA Section 203(b) insures mortgages for the purchase or refinance of 1-4 unit family homes. Downpayment Assistance Programs (DAPs) may be eligible.

#### Section 234(c) – Condominium Housing Program

FHA 234(c) insures mortgage for the purchase or refinance of condominium units in FHA-approved condominium projects only. To determine which condominium projects are FHA-approved, refer to the following website: <https://entp.hud.gov/idapp/html/condlook.cfm>

#### Section 203(h) – Mortgage Insurance for Disaster Victims

FHA Section 203(h) program insures mortgages for victims of major disasters who have lost their homes and are rebuilding or buying another home. It provides relief to borrowers whose previous residence was destroyed by flood, fire, storms, hurricanes, earthquakes or other federally declared natural disasters. Requirements include:

- Single family detached homes or units in FHA-approved condo projects in communities declared by the President as disaster areas.
- Up to 100% loan to value.
- Evidence to verify that the single-family dwelling was damaged or destroyed to an extent that reconstruction or replacement is required.
- Total debt-to-income (DTI) ratio  $\leq$  45% permitted.

#### Section 251 Adjustable-Rate Mortgage (ARM)

Allowed for the purchase or refinance of the following FHA loan programs:

- FHA 203(b) – 1-4 unit family mortgage insurance program
- FHA 234(c) – Condominium unit mortgage insurance program

#### Section 184

Plaza does not offer financing on Section 184 loans.

#### Streamline

Loans processed as Streamline Refinance transactions must refer to the [Streamline](#) section.

#### High Balance

Any loan where the base loan amount exceeds the standard conforming limits will be considered under the high balance program.



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### Section 203(k) Streamlined

Streamlined rehabilitation mortgage insurance program is eligible; refer to the [FHA 203\(k\) Program Guidelines](#).

### Occupancy

#### Primary Residence

A primary residence is a property that will be occupied by the borrower the majority of the calendar year and meets the following criteria:

- 1-4 units, PUDs, Site Condos, FHA-approved condos and HUD-owned properties.
- At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied.
- The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year. The only exceptions allowed are due to hardship or extenuating circumstances.
- 3-4 unit properties require an Occupancy Declaration to be signed by all borrowers. See FHA 4155 handbook section 2 for additional requirements. **Note:** 3-4 units have debt service and are not eligible for cash out.

#### Second Homes

Not eligible.

#### Investment Properties

Not eligible.

### Mortgagors Who Will Re-Occupy a Former Investment Property (ML2011-11)

If the subject property is a former investment property that the borrowers are now re-occupying and the borrowers have fewer than 12 months occupancy seasoning, the maximum LTV/CLTV will be limited to 85% for a rate/term transaction. Streamlines are not allowed.

When 12 months or more seasoning exist, maximum financing for rate/term is allowed.

**Note: Seasoning will be calculated based on the loan application date.**

### Retaining Current Residence (ML 2008-25)

For borrowers who are purchasing a new primary residence and will be retaining their current residence, the following requirements apply:

- The borrower must be able to qualify with both housing payments and may not use rental income to offset the Mortgage on the home being retained, unless one of the following applies:



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- Borrower is relocating or employment is being transferred: New employment must be an unreasonable commute distance from the property being retained.
- Borrowers have at least 25% equity in the property being retained. This is to be determined by a recent appraisal or 2055.

### **Eligible Borrowers**

Eligible borrowers must provide evidence of a valid Social Security number on all FHA loans. Evidence includes a copy of the borrower's:

- Social Security card. Tax Identification numbers (TINs) are not allowed.
- Paystub, W2 or other government-issued card that includes the borrower's Social Security number.

In addition, FHA requires validation of Social Security numbers for consistency with the borrower's name and date of birth through FHA Connections and ECHO systems or its equivalent.

**Military Personnel:** Military Personnel stationed elsewhere are considered occupant-borrowers and are eligible for maximum financing provided a member of the immediate family will occupy the property as a principal residence.

### **Permanent resident aliens**

**Non-permanent resident aliens** are eligible provided they:

- Occupy the property as a principal residence.
- Have a valid Social Security number.
- Are eligible to work in the United States.

### **Non-Occupant Borrowers**

- When there are two or more borrowers, but one or more will not occupy the property as a principal residence, the maximum mortgage is limited to 75% LTV. However, maximum financing is available for borrowers related by blood, marriage or law (family), or for unrelated individuals that can document evidence of a family-type, longstanding and substantial relationship not arising out of the loan transaction. All borrowers, regardless of occupancy status, must sign the security instrument and mortgage Note. If a parent is selling to a child, the parent cannot be the co-borrower with the child on the new mortgage unless the LTV is 75% or less. See the FHA Handbook 4155.1 Section 2 for additional details and requirements.
- Loans with LTVs greater than 75% are limited to one-unit properties.
- Non-occupant co-borrowers may not be added to a cash-out refinance transaction in order to meet FHA's credit underwriting guidelines for the mortgage. Any co-borrower being added to the Note must be an occupant of the property.

**Note:** Both occupying and non-occupying borrowers and co-borrowers:

- Must take title to the property at settlement



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### **Eligible Borrowers, Continued**

- Are obligated on the mortgage Note, and
- Must sign all security instruments

See HUD handbook 4155.1 4.A.1.d for additional details.

### **Identity of Interest, A.K.A. Non-Arm's Length Transactions**

Identity-of-Interest transactions on principal residences are restricted to a maximum LTV ratio of 85%.

Maximum financing above 85% LTV is allowed under the following circumstances:

- A family member purchasing another family member's principal residence.
- An employee of a builder purchasing one of the builder's new homes or models as a principal residence.
- A current tenant purchasing the property that the tenant has rented for at least six months predating the sales contract. A lease or other written evidence must be submitted verifying occupancy.
- Sales by corporations that transfer employees out of an area and purchase the transferred employee's home and then resell to another employee.

### **Restricted Family Member Transactions**

If the property being sold from one family member to another is the property's seller's investment property, the maximum mortgage is the lesser of either:

- 85% of the lesser of the sales price or appraised value, or
- The current maximum mortgage calculation formula (per [ML 98-29](#))

The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.

### **Identity of Interest Additional Restrictions:**

- If there is an identity-of-interest between the buyer and the property seller, commission from the sale or listing of the property cannot be used for the down payment.
- An "as is" appraisal of the subject property will be required.
- Not allowed on "Flip" transactions. See the [FHA Resale Requirement](#) section for details.

For the purpose of Identity of Interest transactions, the definition of family member includes:

- Child, parent, or grandparent (biological, foster or step)
- Spouse
- Legally adopted child, including a child who is placed with the borrower by an authorized agency for legal adoption
- Foster child



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- Brother/stepbrother or sister/stepsister
- Aunt or uncle

**Note:** A child is defined as a son/stepson, daughter/stepdaughter. A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent.

### Ineligible Borrowers

- Charitable organizations
- Non-profit agencies
- State or local government agencies
- Foreign Nationals
- Individuals with any of the following visa types: A-1, A-2, A-3, F-1, F-2, M-1

### Eligible Properties

- Attached/Detached SFRs
- Attached /Detached PUDs
- FHA-approved Condos <sup>1</sup>
- 2-4 Units
- HUD-owned properties underwritten to HUD guidelines

<sup>1</sup> Refer to Plaza's FHA Condo Guidelines for all requirements

Eligible properties may vary by FHA Mortgage Insurance program.

### Properties Listed For Sale in the Last Six Months

Refinances of properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing cancelled in the timeframes described below:

- **Streamline Refinances:**
  - The listing agreement must be cancelled at least one day prior to the date the application is taken.
  - Streamlines require a signed affidavit by the borrower confirming the subject property was not listed for sale at the time of application.
- **Rate and Term Refinances:**
  - The listing agreement must be cancelled at least one day prior to the date the application is taken.
  - A copy of the cancelled/expired listing and a search of the current multiple listing service should be completed to verify that the property is not listed by a different agency.
- **Cash Out Refinances:**
  - The listing agreement on the subject property must be cancelled at least six months prior to the application date or the loan is subject to a maximum 70% LTV/CLTV.



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- A copy of the cancelled/expired listing and a search of the current multiple listing service should be completed to verify that the property is not listed by a different agency.

In all circumstances, listing agreements must be cancelled at least one day prior to the loan application.

**Note:** Cash out refinance transactions are only eligible after a borrower has made 6 regularly scheduled monthly payments on the existing mortgage. Also see Non-Occupant Co-Borrowers under the [Eligible Borrowers](#) section.

### Ineligible Properties

- Commercial Property
- Cooperatives
- Condotels
- Geothermal Homes
- Manufactured Housing or Mobile Homes
- Mixed Use
- Non-warrantable condos
- Timeshares
- Working Farms, Ranches, Orchards

### Maximum Loan Amount

For most single-family mortgage insurance programs, the maximum insurable amount is the lesser of:

- The maximum loan limit for the area, usually a county or metropolitan statistical area (MSA), **OR**
- The applicable LTV limit, determined by a fixed percentage of the lesser of the sales price or the appraised value.

**High Balance Loans:** Any loan where the base loan amount exceeds the standard conforming limits will be considered under the high balance program and is subject to additional credit overlays identified where applicable. High Balance Program Codes: **FHA300HB, FHA300HBS, FHA300HBEM, FHA300HBGN, FHA300HBRE & FHA150HB**

For 2013, the FHA High Balance loan limits are the greater of the loan limits established under section 203(b)(2) of the National Housing Act (NHA) or the dollar limit prescribed in section 202 of the Economic Stimulus Act of 2008 (ESA).

The ceiling for the Contiguous United States is calculated at 175% of the conventional loan limit. The NHA permits mortgage limits for Alaska and Hawaii to be adjusted up to 150 percent of the ceiling for the Contiguous United States.

The FHA national loan limit "floor" is 65 percent of the national conforming loan limit (\$417,000 for a one unit property).



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Maximum Base Loan Amount <sup>1</sup>			
Unit	Contiguous States Standard	Contiguous States High Balance	Alaska & Hawaii High Balance
1	\$271,050	\$729,750	\$793,750
2	\$347,000	\$934,200	\$1,016,150
3	\$419,425	\$1,129,250	\$1,228,300
4	\$521,250	\$1,403,400	\$1,526,450

<sup>1</sup> Maximum base loan amounts are county specific and may be lower in a particular county.

The following states have specific counties that are eligible for the High Balance program:

- California
- Colorado
- D.C.
- Hawaii
- Idaho
- Massachusetts
- Maryland
- New Jersey
- New York
- North Carolina
- Pennsylvania
- Virginia
- Wyoming

**The maximum combined loan amount is \$2,000,000.** This applies to existing 2<sup>nd</sup> liens or new 2<sup>nd</sup> liens. Corporate Underwriting must review all loans with second liens. This applies to new concurrent 2<sup>nd</sup> liens or existing 2<sup>nd</sup> liens that will be subordinate to the new 1<sup>st</sup> lien.

Maximum loan limits are determined by geographic areas. A complete schedule of FHA mortgage limits for all areas is available at: <https://entp.hud.gov/idapp/html/hicostlook.cfm>  
The loans limits referenced above are effective through December 31, 2013

**Maximum LTV/CLTV**

As stated in the FHA Mortgagee Letter [ML2008-40](#), the maximum loan-to-value varies by transaction type:

**Purchase:**

- Conforming Balance: Max LTV is 96.50%. Max CLTV is 100%.
- High Balance: Max LTV/CLTV is 96.50%

**Non-Streamline Rate/Term Refinance:** Max LTV/CLTV is 97.75%.

**Cash-Out Refinance:** Max LTV/CLTV is 85%.

**Streamline Refinance:** No LTV maximum, however, a maximum insurable mortgage amount applies. If subordinate financing is remaining in place the maximum CLTV is 125%. CLTV is based on the original appraised value of the property. Refer to the [Streamline](#) section for loan amount calculation and other requirements.





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**Energy Efficient Mortgage Note:** When a Purchase or Rate/Term Refinance transaction is coupled with an energy efficient mortgage (EEM), the base loan amount may exceed the county maximum and therefore the loan-to-value may exceed those above in these scenarios. Use program code: FHA300EM or FHA300HBEM.

**Good Neighbor Next Door Note:** When a borrower is using the Good Neighbor Next Door (GNND) program to purchase a property, LTVs may exceed those above. Use program code: FHA300GN or FHA300HBGN.

**HUD REO Note:** When a borrower is using the HUD REO program to purchase a property, loan-to-values may exceed those above. Use program code: FHA300RE or FHA300HBRE.

### **Geographic Restrictions**

State or geographic restrictions are identified here, however at this time Plaza may not be lending in all states listed. Properties are limited to those states where Plaza branches are currently authorized to originate loans.

**Hawaii:** Properties in Lava Flow Zones 1 or 2 are not allowed.

**Iowa:** An attorney's opinion of title is acceptable in lieu of a title policy, or a title policy may be ordered through the Title Guaranty Division (TGD) of the Iowa Financial Authority.

**Maryland:** All loans must be documented with standard 2 year income documentation.

**Massachusetts:** Septic system inspection required when a property is transferred to a different owner (purchase money). All systems must be inspected within 2 years prior to the transfer of title to the property served by the system. Inspections conducted up to 3 years before the purchase may be eligible when accompanied by records demonstrating that the system was pumped at least one a year during that time.

**Montana:** Lot size of the property may not exceed 40 acres.

**Texas:** Cash out refinance transactions are not eligible in Texas.

**The following states are not eligible:**

**Mississippi:** Not eligible.

**West Virginia:** Not eligible.



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### Transaction Types

#### **Purchase**

Loan amount is based on the *lesser* of the sales price or current appraised value.

#### **Rate and Term Refinance**

All proceeds are used to pay existing liens and costs associated with the transaction. Cash back to the borrower is not allowed with the exception of minor adjustments at closing, provided the amount does not exceed \$500.

This section contains the guidelines for calculating the maximum loan amount for a regular refinance transaction, with no cash-out.

The maximum LTV/CLTV on rate and term refinance (no cash out) for new or existing subordinate liens is 97.75% and is subject to meeting all of the following conditions:

- Second liens that have been permanently modified may use the modified total lien amount to calculate the CLTV ratio provided and executed modification agreement is supplied.
- The second lien CLTV requirements may be more restrictive.
- Regardless of whether the subordinate financing is existing or new, the combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county limit.

The maximum mortgage amount is the lower of the LTV or the existing debt calculation described below, and may never exceed the FHA loan limit except by the amount of any new up-front MIP.

**Equity Line of Credit:** If any portion of the funds of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in a no cash-out refinance.

**Existing Debt:** Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months old, borrower-paid closing costs, prepaid expenses, borrower paid repairs required by the appraisal, discount points, and then subtract any refund of UFMIP.

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). The amount also may include any prepayment penalties assessed on a conventional mortgage.

The amount of the existing first mortgage may not include delinquent interest.

Prepaid expense may include the per-diem interest to the end of the month on the new loan, hazard insurance premium deposits, mortgage insurance premium and any real estate tax deposits needed to establish the escrow account.

If the new loan is used to refinance an existing mortgage to buy out an ex-spouse's or other co-mortgagor's equity, the specified equity to be paid is considered property-related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree, settlement agreement, or other equity agreement must be provided to document the equity awarded to the ex-spouse or co-mortgagor.



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### Transaction Types, Continued

#### **Mortgagors Who Will Re-Occupy a Former Investment Property ([ML2011-11](#))**

If the subject property is a former investment property that the borrowers are now re-occupying and the borrowers have fewer than 12 months occupancy seasoning:

- The maximum LTV/CLTV will be limited to 85% for a rate/term transaction
- Streamlines are not allowed

When 12 months or more seasoning exist, maximum financing for rate/term is allowed.

**Note: Seasoning will be calculated based on the loan application date.**

#### **Non-FHA to FHA**

If the property was acquired less than one year before the loan application and is not already FHA-insured, the original sales price of the property (rather than the appraised value) must be used in determining the maximum mortgage amount.

With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price when calculating the mortgage amount.



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### Streamline Refinance Requirements – APPLIES TO ALL STREAMLINES

The FHA Streamline refinance program is a Fixed Rate program designed to lower the monthly principal and interest payments on a current FHA-insured mortgage. All Streamline refinances are subject to the following:

- All transactions must be owner occupied.
- The new transaction must be a fixed rate program. ARMs are not eligible for Streamlines.
- A minimum credit score of 640 is required for all borrowers on the transaction.
- **Credit:** An in-file credit report is required. The mortgage being refinanced may not have any history of 30 day lates or greater in the last 12 months. See [Housing Payment History](#) for requirements.
- Cash back to the borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed \$500. (No cash back allowed in Texas)
- Appraisal is not required unless the applicant has sufficient equity in the subject property to include closing costs and prepaids in the new loan amount on a credit qualifying Streamline.
- Must result in an immediate payment reduction to the borrower.
- On the date of FHA case number assignment: ([ML 2011-11](#))
  - 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 refinanced mortgage, and,
  - At least 210 days have passed from the closing date of the mortgage being refinanced.
- Loans closed prior to July 1, 1991, are exempt from annual MIP; however, UFMIP is required. Refer to the [UFMIP](#) section for details. Also, loan file must include documentation that the mortgage being refinanced was closed on or before July 1, 1991.
- Transactions that include a reduction in the mortgage term are acceptable as a Streamline refinance provided the new mortgage meets the net tangible benefit test. **Note:** A reduction in the term of the mortgage is not a net tangible benefit.
- Discount points may not be included in the new Streamline mortgage even in the case of a credit qualifying Streamline with an appraisal.
- **Assets:** If funds are needed to close, the underwriter must verify and document the required funds.
- If subordinate financing is remaining in place the maximum CLTV is 125%. CLTV is based on the original appraised value of the property.
- Non-traditional credit is not allowed.
- The underwriter must not use TOTAL Scorecard.



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### **Net Tangible Benefit – APPLIES TO ALL STREAMLINES** (See [ML 2011-11](#))

The underwriter must determine there is a net tangible benefit as a result of the Streamline refinance transaction. Net tangible benefit is defined as follows:

- **Fixed to Fixed:** A minimum 5% reduction to the principal and interest (P&I) of the mortgage payment plus the annual MIP. **OR**
- **ARM to Fixed:** Refinancing an Adjustable Rate Mortgage (ARM) to a fixed mortgage, refer to the table below:

From	To	Net Tangible Benefit
Fixed Rate	Fixed Rate	Reduction of at least 5% of principal & interest (P&I) and mortgage insurance premium (MIP)
One-Year ARM	Fixed Rate	New interest rate no greater than 2 percentage points above the current interest rate of the ARM
Fixed-Period ARM (During the Fixed Period)	Fixed Rate	Reduction of at least 5% of P&I and MIP
Fixed-Period ARM (During Adjustable Period)	Fixed Rate	New interest rate no greater than 2 percentage points above the current interest rate of the Fixed-Period ARM

**Note: Streamline Refinancing from a Fixed Rate to an ARM is not eligible**

- **Payment History:** At the time of loan application, the borrower must exhibit an acceptable payment history as described below:
  - **For mortgages with less than a 12 month payment history:** The borrower must have made all mortgage payment within the month due. No 30 day (or greater) late payments allowed on any mortgage in the last 12 months.
  - **For mortgages with a 12 month payment history or greater, the borrower must have:** Had no 30 day late payments (or greater) in the last 12 months.
- **UFMIP Requirements:** Refer to the [UFMIP](#) section of these guidelines for information.



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### **Streamline Refinance Maximum Mortgage Amount**

The benefit of a full credit qualifying Streamline with an appraisal is the ability to include closing costs and prepaids in the loan amount provided there is sufficient equity in the subject property. Closing costs and prepaids can be rolled into the loan amount **only** on a full credit qualifying Streamline **with an appraisal**. Refer to ([ML 2009-32](#)).

### **Streamline Refinance with an appraisal (full credit qualifying):**

#### **The maximum loan amount is the lesser of:**

- The existing principal balance
- Plus no more than 60 days (2mo) interest on existing loan plus 2 months monthly MIP. If only 30 days of interest is on the payoff, then only 1 month monthly MIP can be included. May not include delinquent interest, late charges or escrow shortages.
- Minus the applicable refund of UFMIP.
- Plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charged on the refinance. **OR**
- 97.75% of the appraised value of the property.
- Plus the new UFMIP that will be charged on the refinance.

Prepaid expenses may include:

- Per diem interest to the end of the month on the new loan.
- Hazard insurance premium deposits.
- Monthly mortgage insurance premiums. **AND**
- Any real estate tax deposits needed to establish the escrow account.

Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, verify the borrower has the assets to pay them along with any other financing costs not included in the new mortgage amount.

### **Streamline Refinance without an appraisal:**

The maximum loan amount cannot exceed:

- The existing principal balance
- Plus no more than 60 days (2mo) interest on existing loan plus 2 months monthly MIP. If only 30 days of interest is on the payoff, then only 1 month monthly MIP can be included. May not include delinquent interest, late charges or escrow shortages.
- Minus the applicable refund of UFMIP
- Plus the new UFMIP that will be charged on the refinance

To determine the maximum mortgage amount, refer to the [FHA Streamline Refinance Maximum Mortgage Worksheet and NTB FM-122](#). Select the appropriate worksheet based on a Streamline refinance without an appraisal or a credit qualifying Streamline with an appraisal.



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### Streamline Income and Employment: Certificates and Verifications

#### Requirements for all Streamlines

- **A full 1003** must be completed including employment but not including income information.
- **Wage Earners:** Verbal verification of employment. Underwriter to verify the borrower is employed and has income; however, specific income is not to be verified.
- **Self-employed Borrowers:** A verbal verification of employment by a neutral third party, such as a CPA or regulatory agency to independently confirm self-employment. Additional evidence may include a current business license or business reference letters.
- **Other Income:** If the borrower indicates on their loan application that their income is from an “other” income source, documentation supporting that source of income is required. Refer to the list below for some examples of types of “other income”.

Other Income Types	Documentation Examples
Alimony/Separate Maintenance/Child Support	A copy of the divorce decree, or support order, or the most recent bank statement showing deposits where the bank statement identifies the source of the deposits.
IRA/Keogh	A copy of the written distribution plan from the investment company or the most recent bank statement showing deposits where the bank statement identifies the source of the deposits.
Note Income	A copy of the Note and most recent bank statement showing the deposits in the amount from the Note.
Pension/Retirement	A copy of the Pension or Retirement plan award letter or the most recent bank statement showing deposits where the bank statement identifies the source of the deposits.
Rental Income	A copy of the current lease agreement(s).
Social Security / Survivor's / Disability Income	A copy of the award letter or the most recent bank statement showing deposits where the bank statement identifies the source of the deposits.
Trust Income	A copy of the Trust Agreement.
VA Benefits	A copy of the award letter or the most recent bank statement showing deposits where the bank statement identifies the source of the deposits.

#### Streamline Debt-to-Income Ratios

Debt ratios are not calculated. While employment or source of income must be verified, actual income amount is not verified and debt ratios are not calculated.

#### Streamline Asset Verification

Underwriters must ensure any assets needed to close the loan, including discount points, are verified and documented including the source of any large deposits.



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### **Cash-Out Refinances**

A cash-out is a first lien in which the loan proceeds may include the funds required to pay off any existing liens, related prepaids, closing costs, and the disbursement of cash to the borrower.

The maximum LTV/CLTV on cash-out refinance transactions for new or existing subordinate liens is 85% subject to meeting all of the following eligibility conditions:

- Cash out refinance transactions are only eligible after a borrower has made 6 regularly scheduled monthly payments on the existing mortgage.
- Minimum Credit Score is 640 for Conforming Balance.
- Minimum Credit Score is 660 for High Balance and there can be no history or Bankruptcy or Foreclosure in the last 7 years.
- 1-2 Unit Properties only
- Regardless of whether the subordinate financing is existing or new, the combined amounts of the FHA first lien and any subordinate liens may not exceed the applicable county limits.
- The second lien CLTV requirements may be more restrictive.
- Second liens that have been permanently modified may use the modified total lien amount to calculate the CLTV ratios provided an executed modification agreement is supplied.
- If the property (1-2 units) is an owner-occupied principal residences and owned for:
  - One year or more preceding the date of the loan application: 85% LTV/CLTV based on amount of the appraised value.\*
  - Less than one year preceding the loan application: 85% LTV/CLTV based on the lesser of the property's appraised value\* or the original sales price.
- Co-borrowers or co-signers added to the Note or currently on the Note must occupy the property securing the new FHA-insured mortgage. None-occupant co-borrowers or co-signers may not be added to the Note to meet FHA credit underwriting guidelines.
- If said property is encumbered by a mortgage, the borrower must have made all of his/her mortgage payments within the month due for the previous 12 months. No payment may have been 30 days late or greater and mortgage must be current at application and closing.
- Discount points and prepaid expenses may not be included with closing costs nor otherwise added to the property's appraised value.

### **Properties Owned Free and Clear**

Properties owned free and clear must be refinanced as a cash-out refinance transaction.





PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **Ineligible Transactions**

Loans with the following characteristics are not eligible:

A restructured or short payoff loan, a.k.a., short refinance, is a mortgage in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.

Restructured loans result in:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage. **OR**
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness. **OR**
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage. **OR**
- Conversion of any portion of the original mortgage debt from secured to unsecured.

**Note:** Additional documentation to identify a restructured or short payoff loan may be required such as, but not limited to, HUD-1s, payoff demands and/or evidence of source of funds of principal balance pay-downs to substantiate principal reduction transactions.

### **Energy Efficient Mortgages – Program Codes: FHA300EM & FHA300HBEM**

Energy Efficient Mortgages are eligible as purchase or refinance of a principal residence to incorporate the cost of energy-efficient improvements into the mortgage.

This program allows a borrower to finance up to 100% of the cost-effective energy package as long as the present value of the energy saved over the useful life of the improvements is demonstrated.

In addition to the base FHA maximum mortgage amount limit, which is calculated on the value of the home, the mortgage loan amount for an EEM can be increased by the cost of effective energy improvements. The maximum amount of the cost of the energy efficient improvements is set out below.

The maximum amount of the portion of the EEM for energy improvements is the lesser of the actual cost of the improvements or 5% of the lesser of:

- FHA appraised value of the property as indicated on the DE Statement of Appraised value, **OR**
- 150% of the conforming Freddie Mac loan limit, or
- 115% of the median area price of a single family dwelling as provided by FHA Connection.

See <http://www.hud.gov/offices/hsg/sfh/eem/eemhome.cfm> for more information.

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **Energy Efficient Mortgages – Program Codes: FHA300EM & FHA300HBEM, Continued**

The EEM may be used for all property types, purchase and refinance transactions, including Streamline refinances. New construction and existing construction are eligible for EEM.

For existing properties, energy-related weatherization items (refer to HUD handbook 4155.1 Rev 5, 1-7(C)(2) for maximum additions to the mortgage amount) may be combined with the EEM, where the maximum dollar amount allowed under an EEM does not cover the cost of the entire energy package.

The weatherization amount would be the cost of the improvements not covered by the EEM amount.

A qualified home energy rater must perform an analysis of the cost-effectiveness of the energy improvement using Home Energy Rating System (HERS) guidelines. The energy rater must provide the borrower and the lender with a written home energy rating report. The report will include an estimate of the current energy cost vs. the proposed energy costs with the improvements. Many home improvement stores have qualified home energy raters on staff. There are also a few home energy service networks with accredited home energy rater members that can be found through an Internet search.

The fees charged to the borrower for the home energy rating, including the physical inspection, the HERS report, and any post-installation test, must be customary and reasonable for the area. These fees may be included and financed as part of the energy package if the entire package, including those fees, is cost-effective. If not, such fees are considered allowable closing costs.

### **Good Neighbor Next Door – Program Codes: FHA300GN & FHA300HBGN**

Revitalize neighborhoods by encouraging borrowers in selected professions to purchase and live in HUD-acquired single-family properties.

#### **Eligible borrowers**

- Law enforcement officers
- Firefighters
- Emergency medical technicians (EMTs)
- Private and public school teachers

If a married couple is eligible under more than one program, they are eligible to purchase under only one program.

Designated HUD-owned properties in revitalization/exception-criteria areas are eligible at 50% off the sale price as specified by HUD.

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **Good Neighbor Next Door – Program Codes: FHA300GN & FHA300HBGN, Continued**

Loans must comply with FHA guidelines. The following program options are available:

- 203(b)
- 234 (c)
- 251
- 203(k) Streamlined. Refer to [Plaza's 203\(k\) Program Guidelines](#).

#### **Eligible Properties**

Owner-occupied single family detached homes, PUDs and condos.

Borrowers must agree to occupy the property as a primary residence for three years without interruption.

**Note:** Under the GNND Sales Program, single-unit properties acquired by HUD located in HUD-designated revitalization areas (except occupied properties, those located in Asset Control Areas, or those that HUD has determined will be sold through an alternative sales method) will be available to interested law enforcement officers, teachers and firefighters/emergency medical technicians prior to listing the properties for sale to other purchasers.

#### **Minimum Down Payment**

- \$100
- Closing cost and finance costs may be included in the mortgage amount up to a maximum of 100% LTV based on the current value.

#### **Required Documents**

- Certificate of Law Enforcement Officer, Teacher, Firefighter or EMT (HUD-9549-A) <http://portal.hud.gov/hudportal/documents/huddoc?id=9549a.pdf>
- Land Use Restrictions Addendum (HUD-9549-B) <http://portal.hud.gov/hudportal/documents/huddoc?id=9549b.pdf>
- Assignment of Sales Contract (HUD-9549-C) <http://portal.hud.gov/hudportal/documents/huddoc?id=9549c.pdf>
- Employer Verification of Participant Employment (HUD-9549-E) <http://portal.hud.gov/hudportal/documents/huddoc?id=9549e.pdf>

For more info, visit the following HUD site: <http://www.hud.gov/offices/hsg/sfh/reo/goodn/gnndabot.cfm>

**For HUD REO Requirements, see the [HUD REO](#) section within these guidelines.**



**PLAZA HOME MORTGAGE, INC.**

**FHA Fixed and ARM**

**Underwriting Method and Credit Score Table**

Effective with new case number assignments on or after October 1, 2008, all loans, excluding Streamline refinances, must be decided through FHA TOTAL Scorecard. Provide a copy of the TOTAL Scorecard recommendation from PULSE, DU or LP.

- Loans may be manually underwritten (certain restrictions apply).
- Loans may be approved through PULSE, DU or LP with the following results:

Transaction Type	Underwriting Method	Acceptable AUS Results	Conforming Balance Minimum Credit Score	High Balance Minimum Credit Score
Purchase or Rate/Term	PULSE, DU, LP, Manual	Approve/Eligible or Accept	640	640
Cash-Out Refinance	PULSE, DU, LP, Manual	Approve/Eligible or Accept	640	660
Streamline Refinance	Manual	N/A	640	640

Regardless of the risk assessment made by PULSE, DU or LP, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity and documentation requirements not covered herein.

The DE underwriter must underwrite the appraisal according to standard FHA guidelines. FHA has not approved the use of automated underwriting systems to review appraisals.

**Credit**

A tri-merge bureau is required on all loans; the lowest qualifying score of all applicants is used to qualify and each borrower must have at least two credit scores. The qualifying score is the lower of 2 or the middle of 3 scores and must be reviewed for each borrower.

**Valid Credit Score:** Regardless of AUS approval, for a credit score to be considered valid, the score must be generated based on sufficient credit depth and there must be at least two scores per borrower.

Sufficient credit depth can vary by borrower. Here are some examples of acceptable credit depth:

- The borrower has (3) trade lines that have been evaluated for at least 12 months. These trade lines do not need to be currently active but require some activity in the last 24 months.
- The borrower has (2) trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.
- The borrower has a credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months. Borrower's mortgage/rental payment history with no late payments in the last 24 months.

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **Credit, Continued**

**Note:** Underwriters should refer to the Plaza Underwriting Standards for more details on acceptable scenarios and signing authority.

**Non-traditional Credit:** For conforming balance, non-Streamline transactions only, non-traditional trade lines may be considered in addition to traditional credit; however, **it is not acceptable to base a credit decision solely off of non-traditional tradelines**. Non-traditional tradelines can only be used to build on to traditional credit.

**Example A:** A credit report has a qualifying credit score of 640 but the borrower has no traditional credit. This credit score is not valid since the borrower has no traditional credit. The borrower is not eligible.

**Example B:** A credit report has a qualifying credit score of 640, however, the borrower's profile is less than 12 months or the borrower does not have at least 3 trades. It is acceptable to provide non-traditional trade lines to support a total of 3 trade lines with a 12 month history each.

Refer to the [Non-Traditional Basic Guidance](#) section of these guidelines for additional information

**Non-traditional credit is not allowed on [Streamline](#) or [High Balance](#) loans.**

**No Credit Score:** Borrowers without a minimum qualifying credit score are ineligible.

**Credit Profile:** If the borrower's credit profile consists of only collection accounts, judgments or other adverse credit, the borrower is not eligible. This applies regardless of credit score or AUS approval.



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Housing Payment History

- **Mortgage Payment History:** 0 x 30 in the last 12 months. This applies to all transactions including all Streamlines. For borrowers with mortgage delinquency beyond the most previous 12 months, it is the underwriter's responsibility to carefully review and determine the borrower's credit worthiness.
- **Rental Payment History:** If the loan is manually underwritten, a 12 month rental history of 0 x 30 in the last 12 months is required. For loans run through an AUS, rental history requirement will be per the AUS findings.

The mortgage payment history may be documented by a VOM or provide the rating per the credit report.

### Non-Traditional Credit- Basic Guidance

For borrowers with less than 3 trade lines with a 12 month history each, non-traditional credit may be used in addition to traditional credit except for Streamline transactions. There are two groups of non-traditional credit outlined below.

Group I references should be exhausted prior to considering Group II for eligibility purposes, as Group I is considered more indicative of a borrower's future housing payment performance.

**Group I** – rental housing payments (subject to independent verification if the borrower is a renter), utility company reference (if not included in the rental housing payment), including gas, electricity, water, land-line home telephone service, cable TV. If the borrower is renting from a family member (or interested party), request independent documents to prove regularity of payments, such as cancelled checks.

**Group II** – insurance coverage, i.e., medical, auto, life, renter's insurance (not payroll deducted); payment to child care providers – made to a business providing such services; school tuition; retail stores – department, furniture, appliance stores, specialty stores; rent-to-own – i.e., furniture, appliances; payment of medical bills that are not covered by insurance; Internet/cell phone services; a documented 12 month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in an increasing balance to the account; automobile leases, or a personal loan from an individual with repayment terms in writing supported by cancelled checks to document the payments.

### Bankruptcy

#### Chapter 7

- Liquidations are allowed with 24 months seasoning since the discharge date and when good credit has been reestablished.
- Bankruptcies less than 24 months, but not less than 12 months, may be allowed provided the reason for the bankruptcy was due to extenuating circumstances, the borrower has exhibited an ability to manage financial affairs, and the reason for the bankruptcy is not likely to recur.
- A borrower whose bankruptcy has been discharged less than 12 months is not eligible, except on a non-credit qualifying Streamline Refinance.
- High Balance Cash-out transactions may have no history of bankruptcy in the last 7 years.



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Chapter 13

- Bankruptcies are allowed after 12 months of the payout period provided performance has been satisfactory and borrower receives court approval to enter into the mortgage transaction.
- If it has been more than 24 months since the discharge, and the AUS risk decision received is an "Accept," the loan does not need manual downgrading and bankruptcy documentation is not required.

**Note:** Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within 24 months of loan application date require compliance with the instructions regarding bankruptcies described in HUD Handbook 4155.1.

### Foreclosure

A borrower whose previous residence or other real property was foreclosed on, sold through a short sale, or has been given a deed-in-lieu of foreclosure within the previous three years is generally not eligible.

If the foreclosure was greater than three years prior to the date of the application, and the risk decision received is an "Accept" or "Approve," the loan does not need manual downgrading and foreclosure documentation is not required.

**Pre-foreclosure or short sales, including short refinances, require a minimum 3 year seasoning.**

**High Balance Cash-out transactions may have no history of Foreclosure in the last 7 years.**

### Consumer Credit Counseling

Participation in a consumer credit counseling payment program does not disqualify a borrower from obtaining an FHA-insured mortgage provided the underwriter documents that one year of the pay-out period has elapsed under the plan and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive written permission from the counseling agency to enter into the mortgage transaction.

### Collections, Judgments and Disputed Accounts

No documentation or letter of explanation is required for loans with collection accounts or judgments run through TOTAL Mortgage Scorecard receiving an "Accept/Approve" despite the presence of collection accounts or judgments. These accounts have been already taken into consideration in the borrower's credit score. If TOTAL Mortgage Scorecard generates a "Refer," the underwriter must manually underwrite the loan to the following guidelines.

Refer to Mortgagee Letters [2013-24](#) and [2013-25](#) for more information.



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Payoff Requirements for Judgments and Collection Accounts

#### Judgments:

Judgments must be paid prior to or at closing. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. Provide a copy of the agreement and proof of 3 months payments made prior to credit approval. Borrowers may not prepay the scheduled payments to qualify. If exception is made the payment must be included in the calculation of the debt-to-income ratio.

Judgments of a non-purchasing spouse in a community property state must be paid in full, or meet the exception guidance for judgments.

#### Collection accounts:

If the total outstanding balance for all borrowers is less than \$2,000, a capacity analysis is not required. However, if the total outstanding balance of all collection accounts for all borrowers is equal to or greater than \$2,000, the underwriter must perform a capacity analysis. Collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance.

Medical collections and charge off accounts are excluded from this guidance and do not require resolution.

Capacity analysis includes any of the following:

- At the time of or prior to closing, payment in full of the collection account, verification of acceptable source of funds required.
- The borrower makes payment arrangements with the creditor. A credit report or creditor letter verifying the monthly payment is required and the monthly payment must be included in the DTI ratio.
- If evidence of a payment arrangement is not available, the underwriter must calculate the monthly payment using 5% of the outstanding balance of each collection, and the monthly payment included in the DTI ratio.

**TOTAL Mortgage Scorecard Accept/Approve/Refer** - Regardless of the Accept/Approve/Refer recommendation by TOTAL Mortgage Scorecard, the lender must include the payment amount in the calculation of the borrower's debt-to-income ratio.

When a manual downgrade is required, the underwriter must document reasons for approving a mortgage when the borrower has collection accounts or judgments. Regardless of the amount of outstanding collection accounts or judgments, the underwriter must determine if the collection account or judgment was a 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 with supporting documentation for each outstanding collection account and judgment. The explanation and supporting documentation must be consistent with other credit information in the file.





PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Disputed Accounts

The existence of potentially inaccurate information on a borrower's credit report resulting in a dispute must be reviewed by an underwriter. Accounts that appear as disputed on the borrower's credit report are not considered in the credit score utilized by TOTAL Mortgage Scorecard in rating the application.

If the credit report indicates that the borrower is disputing derogatory credit accounts, the borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

Disputed derogatory credit accounts are defined as follows:

- Disputed charge-off accounts
- Disputed collection accounts, **AND**
- Disputed accounts with late payments in the last 24 months.

Disputed derogatory credit accounts of a non-purchasing spouse in a community property state are not included.

### Guidance for TOTAL Mortgage Scorecard Accept/Approve loans with disputed accounts

Disputed Derogatory Credit Accounts greater than or equal to \$1,000	If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is equal to or greater than \$1,000, the mortgage application must be downgraded to a "Refer" and a Direct Endorsement underwriter is required to manually underwrite the loan as described above.
Disputed Derogatory Credit Accounts less than \$1,000	If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is less than \$1,000, a downgrade is not required.
Excluded Accounts	<ul style="list-style-type: none"><li>• Disputed medical accounts are excluded from the \$1,000 limit and do not require documentation.</li><li>• Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use are also excluded from the \$1,000 limit. However, the lender must provide in the case binder a credit report, letter from the creditor, or other appropriate documentation to support the dispute, such as a police report disputing the fraudulent charges.</li></ul>



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

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

Non-derogatory disputed accounts include the following types of accounts:

- Disputed accounts with zero balance,
- Disputed accounts with late payments aged 24 months or greater, and
- Disputed accounts that are current and paid as agreed.

If a borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the underwriter is not required to downgrade the application to a "Refer." However, the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay. If the dispute results in the borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.

### **Income and Employment**

For eligible income and employment types and details on how to calculate the borrower's income, refer to Plaza's Underwriting Standards and to the HUD Handbook 4155.1  
<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/41551HSGH.pdf>

**Verbal Verification of Employment covering the most recent two year period is required on all loans within 10 days of the loan closing.**

**The Verbal VOE for Self Employed Borrowers requires the following:**

- Plaza employee must verify the existence of the borrower's business within 30 days prior to the funding date.
- Verify from a third party, such as a CPA, regulatory agency or the applicable licensing bureau and by verifying a phone listing and address for the borrower's business using a telephone book, the Internet or directory assistance.
- Verify and document the name and title of the person that confirmed the employment and the date of the call.
- The Telephone Verification of Employment form must also include the name and title of the Plaza employee that performed the verification.

Refer to the Plaza Closing manual for additional guidance.

Refer to the [Streamline Income Requirements](#) section for details on Streamline loans.

### **IRS Form 4506-T**

All transactions require a signed and dated IRS Form 4506-T for all borrowers completed prior to closing. The 4506-T transcripts will be ordered and reviewed prior to closing/funding.

**Exception:** The 4506-T is waived under the FHA Streamline program.



PLAZA HOME MORTGAGE, INC.

**FHA Fixed and ARM**

**Qualifying Ratios**

FHA uses the Effective Gross Income instead of Net Effective Income to qualify loans. The ratios of 31%/43% may be exceeded on AUS-approved transactions per the grid below. For manually underwritten loans with ratios that exceed 31%/43%, significant compensating factors must be present as set forth in the HUD Handbook and may not exceed the ratios per the grid below. When the 31%/43% ratios are exceeded, the underwriter must use Form 92900 LT to explain the reason and list the compensating factors.

Debt-to-Income Ratio Matrix			
Program	Base Loan Amount*	Underwriting Method	Maximum DTI
Conforming Balance FHA	≤ \$417,000 (The lesser of the conforming limit or the maximum county limit.)	AUS	50%
		Manual Underwrite	40/50% <sup>1</sup>
Conforming & High Balance Streamline	All	Manual Underwrite	N/A <sup>2</sup>
FHA High Balance	> \$417,000 (Greater than the conforming limit and less than or equal to the maximum county limit)	AUS	50%
		Manual Underwrite	31/43% <sup>1</sup>

<sup>1</sup>On Conforming Balance transaction only, ratios greater than 31/43% may be allowed up to 40/50%. Debt ratio exceptions are not allowed on High Balance. Conforming balance DTI exception may be considered with any of the following eligible compensating factors:

- 3 months or greater reserves
- Equity in the subject property
- Documented but unused household income

<sup>2</sup>Credit qualifying Streamlines with an appraisal must be manually underwritten and have the same debt-to-income ratio requirements as the non-Streamline manual underwrite transactions referenced in the Debt-to-Income Ratio Matrix.



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Qualifying the Borrower and Payment Shock

**Fixed Rate Loans:** Borrower must qualify based on the Note Rate.

**ARM Loans:**

**ARM w/ LTV < 95%:** qualify at the Note Rate

**ARM w/ LTV  $\geq$  95%:** qualify at the Note Rate + 1%

**Installment Debt:** Payments on all installment debts with 10 months or more of remaining payments must be included in the DTI. Also see Debts with less than 10 months below.

**Auto Lease:** The payment must be included in the DTI regardless of the remaining number of payments.

**Alimony, Child Support or Maintenance Payments:** When there are 10 or more months remaining, the payment must be included.

**Revolving Debt:** If the account shown on the credit report has an outstanding balance and is not reporting a minimum monthly payment, the monthly payment for qualifying purposes must be calculated at the greater of 5% of the balance or \$10.

**Debts with less than 10 months:** Any debt with less ten months remaining must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing; this is especially true if the borrower will have limited or no cash assets after closing.

**Projected Obligations:** If a debt payment, such as a student loan, is scheduled to begin within 12 months of closing, the monthly payment obligation must be included in the underwriting analysis, unless the borrower provides written evidence that the debt will be deferred to a period outside this timeframe.

**401(k) Loans:** Repayment of debt secured by 401(k) funds is not included in the qualifying DTI.

**Paying off Debt:** Installment debt may be paid off to qualify. Revolving debt may be paid off; however a minimum monthly payment of \$10 must be included in the debt ratio.

**Co-signed Obligations:** See the HUD Handbook 4155.1, section 4 Liabilities.

**Payment Shock:** Underwriter should use discretion and consider this as part of the credit qualification analysis as payment shock may suggest inability to afford the new mortgage debt without significant compensating factors present.

### Minimum Cash Investment

The borrower must make a minimum cash investment of 3.5% of the lesser of the appraised or sales value. This amount is in addition to any borrower closing costs.

Refer to the HUD Handbook for more information:

<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/41551HSGH.pdf>



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

**Note:** For borrowers qualifying under the Energy Efficient Mortgage (EEM), Good Neighbor Next Door (GNND) or HUD REO program, the borrower's minimum cash investment may vary.

### **Cash Reserves**

Cash reserves are not a requirement for FHA loans except in the scenarios described below. Generally cash reserves are used as a Compensating Factor when approving an FHA loan with a debt ratio that exceeds guidelines. In this case, a minimum of 3 months PITI will be considered as a Compensating Factor. Gift funds, cash proceeds from the refinance and equity in another property are not acceptable sources for documenting cash reserves.

#### **Scenarios with Reserve Requirements:**

**3-4 unit properties:** 3 months PITI after closing are required for purchase and refinance transactions. Gifts are not an acceptable source.

**Projected Income:** When qualifying a borrower with projected income, the borrower must have sufficient cash reserves to support the mortgage payments and all other obligations during the interim period between loan closing and the start of employment. See the HUD Handbook 4155.1 section 2 for Projected Income.

### **Gift Funds**

Detailed procedures for verifying the transfer of gift funds from private individual donors to homebuyers, as well as the required contents of the gift letter, are outlined below. These procedures are intended to ensure, to the greatest extent possible, that the gift funds were in fact the donor's own and are not derived from an unacceptable source.

#### **Acceptable Gift Funds**

An outright gift of the cash investment is acceptable if the donor is:

- A relative of the borrower
- The borrower's employer or labor union
- A charitable organization (see below)
- A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers
- A close friend with a clearly defined interest in the borrower

A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price. Donors may borrow gift funds from an acceptable source, not from a party to the loan transaction including the mortgage lender.



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **Gift Funds, Continued**

#### **Charitable Organizations/Non-profit Agencies**

FHA does not approve down payment assistance programs in the form of gifts administered by charitable organizations (non-profits). In addition, FHA does not allow non-profit entities to provide gifts to homebuyers for the purpose of paying off installment loans, credit cards, collections, judgments and similar debts.

If a charitable organization loses or gives up its federal tax-exempt status, FHA will recognize the gift provided the gift is made to the homebuyer and properly documented and the homebuyer has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

Gift funds from a nonprofit agency must be sent directly to the closing agent from the Agency. The escrow/funding agent must provide proof that the funds were received via a cashier's check or a wire transfer from the nonprofit agency. This must be a condition of loan closing.

#### **Seller-Funded Nonprofit Agencies**

Not allowed. Examples include: Nehemiah and Ameridream.

#### **Requirement for Federal Tax Identification**

If the nonprofit agency is providing down payment assistance in the form of a gift, enter the Federal Tax identification number of the nonprofit agency into the CHUMS system in the field designated for a charitable organization's tax identification number. Failure to do this will result in the loan not being insured by FHA.

### **Unacceptable Gift Funds**

Except for eligible donors described above, the donor of the gift may not be a person or entity with an interest in the sale of the property, such as the seller, seller funded downpayment assistance, real estate agent or broker, builder, or any entity associated with them.

This restriction may be waived by the local FHA Homeownership Center (HOC), certain restrictions and requirements apply.

Cash-on-hand is not an acceptable source of donor gift funds.

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Gift Funds, Continued

#### Gift Transfer Documentation

#### Gift Funds in the Homebuyer's Account

To document the transfer of the funds from the donor to the homebuyer, obtain the following:

- A copy of the canceled check or withdrawal document showing the withdrawal is from the donor's personal account. **AND**
- The homebuyer's deposit slip or bank statement showing the deposit.

#### Funds Provided at Closing

If the transfer of the gift funds is by certified check made on the donor's account, provide:

- Bank statement showing the withdrawal from the donor's personal account. **AND**
- Copy of the certified check.

If the donor purchased a cashier's check, money order, official check, or any other type of bank check as a means of transferring the gift funds:

- The donor must provide a withdrawal document. **OR**
- Canceled check for the amount of the gift showing the funds came from the donor's personal account.

If the donor borrowed the gift funds and cannot provide the documentation from his/her bank or other savings account, the donor must provide evidence that those funds were borrowed from an acceptable source, not from a party to the loan transaction or the mortgage lender.

#### Underwriter Responsibility

Regardless of when the gift funds are made available to the homebuyer, the underwriter must be able to:

- Determine that the gift funds were not ultimately provided from an unacceptable source and were indeed the donor's own funds. **AND**
- Trace the gift funds from the donor to the homebuyer.

When the transfer occurs at closing, the underwriter remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that those funds came from an acceptable source.

If the loan application was underwritten by DU or LP and the gift funds are already in the homebuyer's account, the documentation requirements stated above must also be met.

The full amount of the gift(s) received by the borrower and the source of the gift(s) must be accurately entered and identified in the AUS used to submit to TOTAL Scorecard in order to receive an accurate TOTAL Scorecard recommendation. All gift funds must be identified; regardless of whether or not they have been deposited into the borrowers account. If the dollar amount of the gift or the gift source in FHA Connection does



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

not match the data provided to TOTAL Scorecard at the time of insuring the transaction is automatically rescored and a “REFER” recommendation is returned along with an error message that “TOTAL CASE RESCORDED AS REFER; MANUAL UNDERWRITING REQUIRED; ZFHA INVALID”.

### Gift Letter Requirements

The gift letter must:

- Specify the dollar amount given.
- Be signed by the donor and the borrower.
- State that no repayment is required.
- Show the donor's name, address, telephone number, and relationship to the borrower.

Additionally, the gift letter must also contain language asserting that the funds given to the homebuyer were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with them.

### Interested Party Contributions

Interested Party Contributions from the property seller, or other interested third parties such as real estate agents, builders, developers, etc., or a combination of parties, where the contributions exceed 6% of the sales price or exceed the actual cost of prepaid expenses, discount points and other financing concessions will be treated as inducements to purchase, thereby reducing the amount of the mortgage.

The 6% limitation also includes property seller payment supplements such as mortgage payment protection insurance and payment of UFMIP.

**Fees not included in the contribution limitation:** Fees typically paid by the property seller under local or state law, local custom (such as real estate commissions, charges for pest inspections, fees paid for trustees to release a deed of trust, etc.) are not considered contributions that must be counted in the 6% limit. The dollar limit for property seller contributions is calculated using Attachment A on the HUD-92900-PUR/HUD-92900WS.

**Note:** Closing costs normally paid by the borrower are considered contributions if paid by the property seller. The property seller may not increase the sales price on a finalized purchase contract to cover closing costs. The LTV/CLTV must be recalculated based on the original sales price if there is evidence in the loan file that the sales price was increased to include the borrower's closing costs.

Fees for builder forward commitments that a builder obtains for blanket coverage before it enters into a contract with a borrower are not subject to contribution limits because they are not attributable to the specific mortgage transaction.

For additional information on contributions and inducements to purchase, please review section 2 of the HUD Handbook 4155.1. <http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4155.1/41551HSGH.pdf>





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**FHA Fixed and ARM**

**Real Estate Commissions**

Any aggregate real estate commission, including a “bonus” greater than 8% is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price.

The appraiser is required to disclose whether the purchase contract was reviewed and, if so, comment on any excessive sales commission. Any excessive sales commission should be taken into consideration when arriving at the final value.

**Appraisal Requirements**

**FHA High Balance Non-Streamline Appraisal Requirements**

For loan amounts or total loan amounts (total loan amount includes a concurrent 2<sup>nd</sup> lien) of greater than \$1 million, the following requirements apply:

- One full FHA appraisal completed by a Certified Appraiser. **AND**
- A desk review with data verification of Enhanced Desk Review with data verification or Fannie Mae Field Review Form 2000 from RELS Valuation.
- The lesser of the appraised value, review value or the sales price will be used to determine the LTV/CLTV of the transactions.
- For total loan amounts, includes a concurrent 2<sup>nd</sup> lien, greater than \$2 million, the file must be sent to Plaza Corporate Underwriting to determine further valuation requirements.

**All Non-Streamline Appraisal Requirements**

For loan amounts or total loan amounts, total loan amount includes a concurrent 2<sup>nd</sup> lien, of less than or equal to \$1 million, the following requirements apply:

- The information below is for informational purposes only. DE Underwriters must refer to the HUD Handbook 4145 for instructions on appraisal requirements.

All appraisals for FHA loans must be completed by a HUD-approved appraiser and use the following forms:

- Statement of Limiting Conditions
- Appraiser’s Certification
- Based on the property type, the following appraisal report must be used:

Property Type	Form Name/Number
Single-Family Residence, including PUD	Uniform Residential Appraisal Form (#1004 / # 70)
Condominiums	Individual Condo Appraisal Report (#1073 / # 465)
Two-Four Units	Small Residential Income Property Appraisal Report (# 1025 / # 72)
All 1-4 unit properties	Appraisal Updated and /or Completion Report 1004D/442



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## FHA Fixed and ARM

### FHA Appraisal Roster

The FHA Roster lists appraisers who are eligible to perform FHA single-family appraisals. To conduct an appraisal for FHA insurance endorsement, the appraiser must be on the FHA Roster and listed as certified residential or certified general. The eligibility requirements for placement on this registry are listed below:

### Appraiser Qualifications

- Must be state-certified.
- Must be based on the minimum licensing/certification criteria issued by the Appraiser Qualifications Board (AQB) of the Appraisal Foundation.
- Must pass a Department of HUD examination of FHA appraisal methods and reporting as a requirement for qualification.
- Must not be listed on any of the following:
  - General Administrative Services' (GSA's) Suspension and Debarment List
  - HUD's Limited Denial of Participation List
  - HUD's Credit Alert Interactive Voice Response System (CAIVRS) **OR**
  - The Excluded Parties List System (EPLS)

### Appraiser's Certification

HUD has adopted the use of the Fannie Mae Form 1004B and Freddie Mac Form 439 to ensure consistency with the Uniform Standards of Professional Appraisal Practice (USPAP) requirement that the appraiser's certification must accompany each appraisal report.

All appraisers are required to be state certified in order to be eligible to perform FHA appraisals. However, underwriters must not assume, simply because an appraiser is state certified, that the appraiser is qualified and knowledgeable in a specific market area. It is incumbent of the underwriter to determine whether an appraiser's qualifications, as evidenced by educational training and actual field experience, are sufficient to enable the appraiser to competently perform appraisals before assigning an appraisal to them.

### Appraiser Independence

**Effective with case numbers assigned February 15, 2010 and after:** To ensure appraiser independence, underwriters are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker, real estate agent or any staff member who is compensated on a commission basis tied to the successful completion of a loan. Underwriters must assure that the FHA Connection reflects the correct name of the appraiser.

### Recording of Appraiser Fees

FHA Appraisers may not be prohibited by the lender, AMC or other third party, from recording the fee the appraiser was paid for the performance of the appraisal in the appraisal report. The fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal. Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing.



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## FHA Fixed and ARM

### **Appraisal Requirements, Continued**

#### **Communication with Appraisers**

FHA prohibits any member of the loan production staff or any person who is compensated on a commission basis from having substantive communications with an appraiser related to or having an impact on valuation, including ordering or managing an appraisal assignment.

#### **Appraisal Report Exceptions**

When completing the appraisal report form, HUD does not require the cost and depreciation for an older existing home or the income approach for a one- or two-unit owner-occupied home.

#### **Market Conditions Addendum Requirement**

FHA requires the use of Fannie Mae Form 1004MC. Information and instructions on completing the Addendum are available online at: <https://www.efanniemae.com/sf/formsdocs/forms/1004mc.jsp> .

#### **Declining Markets Appraisal Reporting Requirements**

HUD requires an appraiser to provide summary comments and support for all conclusions relating to the trend of the current market. In a declining market, an appraiser must:

- Include a minimum of two active listing or pending sales on the appraisal form, in addition to the three settled sales.
- Include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal; otherwise, a detailed explanation is required why the sales could not be provided.
- Ensure active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over priced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood.
- Adjust active listings to reflect list to sale price ratios for the market.
- Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
- Include the original list price, any revised list prices, and total days on the market.
- Reconcile the adjusted values of active listing or pending sales with the adjusted values of the settled sales provided.
- Include an absorption rate analysis.
- For additional details, refer to Mortgage Letter [ML 2009-09](#) posted on the HUD website.

#### **Age of Appraisal**

Effective with case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed construction is 120 days. ([ML 2009-30](#))



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## FHA Fixed and ARM

### **Appraisal Requirements, Continued**

If an extension is required on a purchase transaction, the sales contract must have been executed prior to the expiration date of the appraisal.

If an extension is required on a refinance transaction, the underwriter may extend the appraisal for an additional 30 days as long as the appraisal is not expired at the time the underwriter issues the approval. The underwriter should Note the extension using HUD form [92900-LT](#) or HUD form [92800.5B](#).

For HUD REO properties, refer to the [HUD REO Appraisal](#) section of these guidelines for requirements.

### **Appraisal Update Report**

Appraisal Update Report ([ML 2010-13](#)), [Fannie Mae Form 1004D/Freddie Mac Form 442](#), Part A, Appraisal Update Report may be used to extend the validity period for the original appraisal report, in lieu of ordering a new appraisal report, when certain conditions are met.

Guidelines for the use of the Appraisal Update Report are as follows:

- The Update Report may not be used if the property value has declined.
- The Appraisal Update Report may only be used one time to extend the validity period of the original appraisal report.
- The Appraisal Update Report must be ordered and performed prior to the expiration date of the original appraisal report.
- The FHA appraiser who performed the original appraisal must perform the appraisal update and the appraiser must be in good standing with FHA at the time the Appraisal Update is performed.
- The appraiser must use the Market Conditions Addendum, Fannie Mae 1004MC, to update their research and analysis of the current market data to validate the subject property has not declined in value. The appraiser must certify there has been no decline in value on the Update Report form.
- The appraiser must be able to observe from the street or a public way the subject property's improvements that contribute value to the property.
- An exterior inspection of the property must not indicate any significant changes or deficiencies that were not observed at the time of the original appraisal report's effective date.
- If the original appraisal report was transferred to a new lender, the appraiser must attach the original appraisal report to the Appraisal Update Report instead of referencing the report. This is a USPAP requirement.
- The appraiser must provide a photo of the subject property from the street and photos from as many angles visible from a public way.

### **FHA provides clarification for lenders on the validity period of an appraisal with and without an Appraisal Update Report.**

- If a lender does not use the Appraisal Update Report to extend the validity period of the original report, then the FHA loan must close within 150 days of the original appraisal report date. If a borrower signs a valid contract of sale within 120 days of the original appraisal date, the lender has the option to extend the appraisal for 30 days to accommodate the closing of the loan.



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## FHA Fixed and ARM

### **Appraisal Update Report, Continued**

- The appraiser must provide a photo of the subject property from the street and photos from as many angles visible from a public way.
- If a lender does use the Appraisal Update Form, the loan must close within 240 days of the effective date of the original appraisal report. The 30-day extension is not permitted.
- For additional information refer to Mortgagee Letter [ML 2009-51](#) for additional criteria for the use of the form and provides clarification regarding appraisal validity dates.

### **Completion Report (Part B of the 442 Form)**

- The Completion Report is used to report the completion of required repairs to the property per the original appraisal report.
- The Completion Report may be performed by any FHA Roster Appraiser.
- If the repairs required in the original appraisal report were not satisfactorily completed, the appraiser must comment on the impact to the property's value.
- The Completion Report may not be used in lieu of a Compliance Inspection Report (form [HUD-92051](#)), which is required for new construction.
- The 442 Form must be retained in the FHA case binder and it becomes part of the appraisal documents for insuring purposes.
- The borrower may be charged for the cost of Appraisal Update and/or Completion Report. The 442 Form must always be retained in the FHA case binder.

### **Property-Related Indebtedness**

If the property appraisal supports the inclusion of additional property-related indebtedness, including closing costs, the regular loan-to-value ratios are permitted.

### **Case Number Assignment/Appraiser Selection and Inspector Assignment**

The Underwriter selects an appraiser from the FHA Roster utilizing Echo Connection Plus or FHA Connection. An FHA Inspector, when required, can be assigned when the case assignment is processed or at a later time using case number assignment update or inspector assignment.

Each approved FHA Roster Inspector is issued a four-character ID by the regional HOC. The Inspector ID must be determined before proceeding with the request for the inspector assignment.

For further detailed procedures on establishing a lender selection register and the procedures for appraiser/inspector assignment via the FHA Connection, see the [Quick Start Reference Guide](#).



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## FHA Fixed and ARM

### **Appraisal Requirements, Continued**

#### **Second or Subsequent Appraisals**

FHA prohibits lenders and third parties from ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless:

- There is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately Noted in the loan file.
- Unless such appraisal or AVM is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value.

#### **REO Appraisal Validity**

HUD obtains an appraisal to establish a list price for Real Estate Owned (REO) properties that are marketed for sale. If the buyer of the REO property is financing the purchase with an FHA loan, the Client must use the HUD appraisal as long as it is still valid. The validity period is 120 days. If a contract of sale is not ratified within 120 days of the appraisal, the lender must order a new appraisal or an appraisal update. The appraisal update must be performed by the original appraiser and the appraiser must make an exterior inspection of the subject property. The appraiser must certify that the property has not declined in value based on research and analysis of current market data. The appraiser must also take pictures of the exterior of the property and certify that the property inspection does not reveal any deficiencies or significant changes since the original inspection.

With the exception of 203(k) as-repaired appraisals for REO properties, a second appraisal may not be ordered unless it is no longer valid as of the date the contract of sale was ratified, or if there are material deficiencies with the current appraisal. The DE underwriter is responsible for determining if there are material deficiencies. If a second appraisal is ordered, the DE underwriter must document the deficiencies and both appraisals must be retained in the case binder.

Refer to HUD REO Appraisal Validity Period and Second Appraisal Changes ([ML 2010-08](#)) for additional information.

#### **Portability of Appraisal from One Lender to Another**

When a borrower has switched lenders, the first lender must transfer the case to the second lender, including the appraisal report. The second lender may order a new appraisal under the following limited circumstances:

- The DE underwriter for the second lender found material defects with the original appraisal.
- The original appraiser is on the second lender's exclusionary list.
- The first lender failed to provide a copy of the appraisal in a timely manner, which causes potential harm to the borrower for events outside of the borrower's control. The events include rate lock expiration, purchase contract deadlines and foreclosure proceedings.
- When a new appraisal is requested, the lender name must be updated.

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**FHA Fixed and ARM**

**Appraisal Requirements, Continued**

**Underwriter Responsibilities**

Underwriters are responsible for properly reviewing the appraisal and determining if the appraised value used to determine the mortgage amount is accurate and adequately supports the value conclusion.

Refer to Plaza’s policy for [FHA Market Conditions Addendum](#) and the [FHA Appraisal Checklist](#).

**Title**

An American Land Title Association (ALTA) title policy must be provided on every loan.

**Married Sole & Separate:** A non-purchasing spouse who is vested or not vested on the subject property – These loans will be reviewed by Plaza Underwriting for acceptance..

**Escrow / Impound Accounts**

Escrow/impound accounts are required for property taxes and insurance. The amount must be included in qualifying ratios.

**UFMIP Premiums**

Effective for loans with case numbers assigned on and after April 1, 2013 AND base loan amounts less than or equal to \$625,500, the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 95%	1.75% / 1.35%	1.75% / 1.35%	0.01% / 0.55%
< = 95%	1.75% / 1.30%	1.75% / 1.30%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 90%	1.75% / 0.70%	1.75% / 0.70%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.45%	1.75% / 0.45%	
<=78% <sup>1</sup>	1.75% / 0.45% <sup>1</sup>	1.75% / 0.45% <sup>1</sup>	0.01% / 0.00%

- <sup>1</sup> For case numbers assigned on or after June 3, 2013 and before Sept 30, 2013, the new annual MIP for terms <= 15 years and LTV <= 78% is .45%. The loan must fund by December 31, 2013.



**PLAZA HOME MORTGAGE, INC.**

**FHA Fixed and ARM**

FHAC/CHUMS will use the Closing/Disbursement Date on the Insurance Application screen as the funding date.

- For case numbers assigned on or after Sept 30, 2013, the new annual MIP for terms <= 15 years and LTV <= 78% is .55%. (FHA INFO #13-62: FHA Connection/CHUMS MIP Calculation Correction for Certain Streamline Refinances).

**Effective for loans with case numbers assigned on and after June 11, 2012 but prior to April 1 ,2013 AND base loan amounts less than or equal to \$625,500, the following premiums apply:**

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 95%	1.75% / 1.25%	1.75% / 1.25%	0.01% / 0.55%
< = 95%	1.75% / 1.20%	1.75% / 1.20%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 90%	1.75% / 0.60%	1.75% / 0.60%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.35%	1.75% / 0.35%	
<=78%	1.75% / 0.00%	1.75% / 0.00%	0.01% / 0.00%

Refer to Annual and Up-Front Mortgage Insurance Premium – Changes ([ML-2013-04](#)) for additional details.

**UFMIP Premiums**

**Effective for loans with case numbers assigned on and after April 1, 2013 AND base loan amounts greater than \$625,500, the following premiums apply:**

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 95%	1.75% / 1.55%	1.75% / 1.55%	0.01% / 0.55%
< = 95%	1.75% / 1.50%	1.75% / 1.50%	

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**FHA Fixed and ARM**

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 90%	1.75% / 0.95%	1.75% / 0.95%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.70%	1.75% / 0.70%	
<=78% <sup>1</sup>	1.75% / 0.45% <sup>1</sup>	1.75% / 0.45% <sup>1</sup>	0.01% / 0.00%

- <sup>1</sup> For case numbers assigned on or after June 3, 2013 and before Sept 30, 2013, the new annual MIP for terms <= 15 years and LTV <= 78% is .45%. The loan must fund by December 31, 2013. FHAC/CHUMS will use the Closing/Disbursement Date on the Insurance Application screen as the funding date.
- For case numbers assigned on or after Sept 30, 2013, the new annual MIP for terms <= 15 years and LTV <= 78% is .55%. (FHA INFO #13-62: FHA Connection/CHUMS MIP Calculation Correction for Certain Streamline Refinances).

**Effective for loans with case numbers assigned on and after June 11, 2012 but prior to April 1, 2013 AND base loan amounts greater than \$625,500, the following premiums apply:**

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 95%	1.75% / 1.50%	1.75% / 1.50%	0.01% / 0.55%
< = 95%	1.75% / 1.45%	1.75% / 1.45%	

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years		
	Purchase and Refinance	Streamline Refinance Endorsed after 5/31/2009	Streamline Refinance Endorsed on or before 5/31/2009
> 90%	1.75% / 0.85%	1.75% / 0.85%	0.01% / 0.55%
>= 78.01 to < = 90%	1.75% / 0.60%	1.75% / 0.60%	
<=78%	1.75% / 0.00%	1.75% / 0.00%	0.01% / 0.00%

Refer to Annual and Up-Front Mortgage Insurance Premium – Changes ([ML-2013-04](#)) for additional details.



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**FHA Fixed and ARM**

**UFMIP Premiums**

Effective for case numbers assigned on and after April 9, 2012, but prior to June 11, 2012, the following premiums apply:

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Greater Than 15 Years	
	Purchase and Refinance	Streamline Refinance
> 95%	1.75% / 1.25%	1.75% / 1.25%
< = 95%	1.75% / 1.20%	1.75% / 1.20%

LTV	Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years	
	Purchase and Refinance	Streamline Refinance
> 90%	1.75% / 0.60%	1.75% / 0.60%
>= 78.01 to < = 90%	1.75% / 0.35%	1.75% / 0.35%
<=78%	1.75% / 0.00%	1.75% / 0.00%

**UFMIP for Refinance Transactions**

The amount of unearned premium refunded, if applicable, depends on when the mortgage was closed.

The following requirements are applicable to Regular and Streamline Refinances (except those Streamline Refinances of mortgages closed before July 1, 1991):

- Mortgages closed after July 1, 1994, but before January 1, 2001: The seven-year unearned premium refund schedule shown in Mortgagee Letter 94-1 remains in effect.
- Mortgages closed on or after January 1, 2001, but endorsed before December 8, 2004, that are subsequently refinanced: The five-year refund schedule shown in Mortgagee Letter [ML 00-46](#) applies.
- Mortgages endorsed on or after December 8, 2004, that are subsequently refinanced: The mortgage will not be eligible for a refund of the UFMIP except when the borrower refinances to another mortgage to be insured by FHA. The three-year refund schedule shown in Mortgagee Letter [ML 05-03](#) applies.
- Streamline Refinances of Mortgages Closed before July 1, 1991: These loans remain exempt from the annual premium and are charged an upfront premium of 1.50%.

**MIP Requirements**

Refinance mortgage insurance premium (MIP) requirements are the same as for purchase transactions.



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## FHA Fixed and ARM

### **Maximum Financed Properties**

The maximum number of financed 1-4 unit properties, including the subject property and regardless of the lending source is limited to four. This is a Plaza requirement that may not be waived.

### **Maximum Loans/Maximum Exposure**

A maximum of 4 Plaza loans or \$1,500,000 is permitted to one borrower, whichever is less.

### **Escrow Holdback**

Both weather related and non-weather related holdbacks will be considered by Corporate Underwriting on a case by case basis.

HUD repair escrows and Energy Efficient Mortgages follow the sales contract and standard FHA guidelines.

### **HUD REOs – Program Codes FHA300RE & FHA300HBRE**

#### **Overview**

Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA-insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties and Minimum Property Standards (MPS) for new construction to be eligible for this program.

#### **Eligibility Requirements**

##### **Property Types**

- Single-family dwellings
- Planned Unit Developments (PUDs)
- Site Condos
- Condominiums (must be prior approved by FHA)
- 2-4 units

##### **Borrowers**

Individuals only.

##### **Occupancy**

Owner-occupied.



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## FHA Fixed and ARM

### HUD Marketing Approaches

Each HUD REO property will be offered for sale using one of the approaches listed below.

- **Insurable:** Properties marketed as "insurable" are those that meet FHA's MPR for existing housing and MPS for new construction at the time of the appraisal in their "as-is" condition without repairs being necessary.
- **Insurable with repair escrow:** A property that requires no more than \$5,000 for repairs to meet FHA's MPR or MPS as estimated by the PCR and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance under the 203(b) repair escrow program, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in their mortgage an amount equal to 110 percent of the estimated cost of the repairs. Note that, per Mortgagee Letter [ML 2005-50](#), properties designated insurable with repair escrow (\$5,000 or less in required repairs) may also be eligible for the 203(k) Streamlined program, provided that the repairs qualify as eligible work items. See the 203(k) Guidelines for details.
- **Uninsurable:** Properties offered for sale "uninsured" do not meet, in their "as is" condition, FHA's MPR or MPS and the cost of repairs identified by the appraiser to meet MPR or MPS are estimated to exceed \$5,000. Uninsurable properties qualify only for Section 203(k) financing and, depending on the scope and extent of repairs needed, the Streamlined 203(k) Limited Repair Program. **Note:** Plaza Home Mortgage, Inc. only offers the Streamlined 203(k). See the [FHA 203\(k\) Program Guidelines](#) for requirements and restrictions.

### Review of the HUD Sales Contract (Refer to Mortgagee Letter [ML 00-27](#) for more information)

The HUD sales contract (form HUD-9548) must be fully completed and signed by the submitting selling broker, the M&M Contractor and the prospective purchaser. If applicable, the Lead-Based Addendum may be attached. The HUD sales contract must specify the:

- Sales price
- Financing terms
- Amount of closing costs HUD will pay at settlement
- Real estate commission HUD will pay
- Closing date
- Discount on the sales price that will be provided at settlement (if any).

The "Radon Gas and Mold Notice and Release Agreement" must be included with sales contract and be fully executed by all purchasers of the subject property.

In order to qualify for FHA-insured financing, the first block on Line 4 of the sales contract, as well as the applicable block for the FHA program - 203(b), 203(b) repair escrow, or 203(k) - must be checked. REO properties that are condominiums which are offered for sale with FHA mortgage insurance should be processed under Section 234(c), even though Section 203(b) is specified on the sales contract. A specific down payment and mortgage amount is no longer required to be established on Line 4 of the sales contract. The purchaser(s) must, however, continue to indicate the type of financing being sought.



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## FHA Fixed and ARM

The amount on Line 5 of the sales contract represents actual borrower financing and closing costs to be paid on their behalf by HUD (the seller) out of the sales proceeds. It does not represent an amount which the borrower may finance in the mortgage.

Only the actual amount of closing and financing costs will be paid by HUD at settlement. The borrower will not be credited at settlement for any unused portion. Prepaid items may not be paid out of the amount on Line 5 (See HUD Notice 99-04).

Specified on Line 8 of the sales contract will be the percentage discount, if any, which will be applied to the sales price at settlement. Where the price will be discounted, the mortgage amount will be based on that discounted sales price, not the contract sales price.

Specified on Line 9 of the sales contract will be the number of days, normally 45 or 60, in which the sale must be closed.

If the contract is not complete, if there are questions about the terms or conditions or if the contract must be amended as a condition of loan approval, contact the M&M contractor.

**Note:** Site condominiums do not require FHA approval and must be processed under Section 203(b).

### **HUD REO Appraisal Requirements ([ML 2010-08](#))**

#### **HUD REO Appraisal Validity Period**

All appraisals utilized to establish the listing price on an REO property owned by HUD, with an effective date on or after April 1, 2010, will be valid for a period of 120 days from the effective date of the appraisal. The HUD REO sales contract must be ratified within 120 days of the appraisal effective date or a new appraisal or an appraisal update in accordance with the guidance provided in [ML 2009-51](#) to support the mortgage transaction is required.

#### **REO Second Appraisals to Support a Higher Purchase Price**

With the exception of 203(k) as-repaired appraisals, when a buyer is using FHA financing to purchase a HUD REO property, the appraisal that was utilized in determining the list price will remain effective for purposes of obtaining the FHA-insured mortgage.

A second appraisal may not be ordered simply to support a purchase price that is higher than the value on the current appraisal. A second appraisal can only be ordered to support a higher sales price if there are material deficiencies with the current appraisal or the current appraisal will not be valid on the date of contract ratification. The DE underwriter is responsible for determining if there are material deficiencies with respect to the current appraisal and document why a second appraisal was ordered. The loan file must contain copies of both appraisals.

### **HUD REOs - CHUMS Processing a.k.a. FHA Connection**

A new FHA case number must be obtained for loan applications with FHA-insured financing involving REO properties. When entering the case information in FHA Connection, select "Real Estate Owned" for processing type.



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## FHA Fixed and ARM

When processing, the Computerized Homes Underwriting Management System (CHUMS) will require a response to the following question, "Was this case previously sold as a Property Disposition?"

- **Always** check **YES** when processing a loan application for FHA-insured financing on an REO property.
- The mortgagee should complete the "Previous Case Number" field. This field is designed to track REO properties sold with FHA-insured financing and whether they are subsequently sold by the individuals who purchased them from HUD.
- If entry of the previous case number triggers an error message, the underwriter should request that the processing and underwriting division of their Homeownership Center (HOC) post the number in the CHUMS property disposition file.

**Note:** the appraisal fields in the FHA Connection should be left blank when obtaining a new case number for REO loans.

If the REO property is a condominium, FHA Connection will require the entry of the condo ID. If FHA financing was approved on the sales contract, the condominium development must be in compliance with the condominium procedures ([ML 2011-22](#))

**Note:** Site condominiums do not require FHA approval and must be processed under Section 203(b).

### **HUD – REOs: Inspection Requirements**

#### **Termite/Pest Inspection**

A termite inspection is required on existing property.

- When called for in the sales or purchase agreement. **OR**
- When the appraiser recommends the inspection in the appraisal report.

A termite inspection is no longer an automatic inspection requirement (Mortgagee Letter [ML 2005-48](#)). The underwriter should contact the M&M contractor to determine if an inspection report has been performed, and, if it has, to obtain a copy of it.

#### **Well and Septic System Inspections**

If the HUD REO property has a well and/or septic tank, underwriters should contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report.

A septic test or inspection is required on existing property

- When called for in the sales or purchase agreement. **OR**
- When the appraiser recommends the inspection in the appraisal report.

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## FHA Fixed and ARM

### **HUD – REOs: Inspection Requirements, Continued**

A well test or inspection is required on existing property

- When called for in the sales or purchase agreement. **OR**
- When the appraiser recommends the inspection in the appraisal report **OR**
- If there is knowledge that well water may be contaminated **OR**
- When the water supply relies upon a water purification system due to presence of contaminants **OR**
- When there is evidence of:
  - Corrosion of pipes (plumbing)
  - Areas of intensive agriculture within 1/4 mile
  - Coal mining or gas drilling operations within 1/4 mile
  - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within 1/4 mile
  - Unusually objectionable taste, smell or appearance of well water (superseding the guidance in Mortgagee Letter [ML 95-34](#) that requires well water testing in the absence of local or state regulations)

In cases where well tests are necessary as described above, FHA's existing testing standards outlined in Chapter 3, Paragraph 3-6, A-5a of Handbook 4150.2 remain in effect and supersede Mortgagee Letter [ML 95-34](#).

**Note:** Arrangements should be made with the M&M contractor for any required testing to be completed.

### **Home Inspection**

The borrower has the right to have the house inspected by a professional home inspector. HUD's M&M contractor shall permit entry to the purchaser(s) during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the underwriter or purchaser(s) must complete the systems check while the utilities are activated.

Additionally, where FHA-insured financing is specified on the sales contract, a form HUD-92564-CN, "For Your Protection: Get A Home Inspection," must be provided to prospective homebuyers at first contact, be it pre-qualification, pre-approval, or *no later than* initial application. If the form is incorporated within the executed sales contract in its entirety, then the homebuyer need not separately be provided with form HUD-92564-CN.

In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the underwriter should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect either an insured with repair escrow sale or to an FHA 203(k) sale in those instances where the underwriter provides them with sufficient documentation to support the change in financing. The sales contract must be revised to include this revision and initialed by both the purchaser and the M&M contractor.

In the event the purchaser(s) wishes to finance eligible rehabilitation in the purchase mortgage through a 203(k) mortgage but the property was listed as "insurable," the underwriter should provide the M&M contractor with sufficient documentation to support the change in financing terms and obtain a modification to the sales contract. Note: Plaza offers the FHA 203(k) Streamlined Program only. See the [FHA 203\(k\) Program Guidelines](#) for more information.



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## FHA Fixed and ARM

### **HUD REOs: Down Payment**

The maximum mortgage amount and minimum cash investment must be calculated using the FHA Underwriting Transmittal.

### **Maximum Mortgage Calculation**

In performing the maximum mortgage calculation:

- The Direct Endorsement Underwriter must enter on Line 11a of form HUD-92900-PUR the lesser of the sales price or the “as-is” value specified on the contractor’s appraisal.
- The mortgage amount may no longer be based solely on the sales price.

### **Additional Sales Incentives**

- From time-to-time, for particular properties or in particular areas, HUD may authorize additional sales incentives. Where additional incentives are authorized, they will be Noted in writing on either the HUD Sales Contract or on a cover letter accompanying the HUD sales contract.
- For properties that HUD has approved with a \$100 down payment, the UFMIP may only be financed if the total loan amount does not exceed 100%\* based on the “as is” appraised value.
- Where a discount on the sales prices is being provided, the mortgage amount shall be based on the lesser of the “as-is” value or the discounted sales prices, not the contract price.
- Closing costs and prepaids may not be included in the mortgage. The Good Neighbor Next Door program is an exception.

**\*Note:** UFMIP may not be partially financed; therefore if the financed UFMIP will exceed 100%, the entire premium must be paid in cash from borrower funds.

### **HUD REO Closing Costs/Prepaid Expenses**

For HUD-paid closing costs, HUD has authorized as a sales incentive, purchasers to specify in Item 5 on the HUD sales contract an amount which HUD, as seller, may pay on the borrower’s behalf at settlement.

This amount may be applied to the **actual cost** of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower.

Depending upon the amount of closing costs that HUD pays for the borrower, the maximum mortgage amount may have to be reduced in order for the borrower to meet the minimum cash investment required.

### **Repair Escrow**

Properties that need less than \$5,000 worth of repairs to meet the intent of the MPS will be offered for sale with insured financing available, provided a cash escrow is established to ensure the completion of repairs.





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## FHA Fixed and ARM

### **HUD REOs, Continued**

#### **Repair Escrow Financing**

The repair escrow must be financed in the FHA loan and is not to be taken from HUD proceeds at closing.

#### **Escrow Account**

Equal to 110 percent of the estimated cost of repairs and must be established for properties sold under the Property Disposition Sales Program. Since the maximum cost of repairs is \$5,000, the maximum escrow amount may not exceed \$5,500.

#### **Cost of Repairs**

Bidders are provided with a list of the repairs needed to make the property insurable and the estimated cost of repairs.

#### **Inspections**

As part of the responsibility for administering the escrow account, as the lender, Plaza must arrange and pay for the inspection of the completed repairs. Plaza may use either the mortgagee certification procedure or request an inspection by the inspector under contract to inform the HUD Field Office that the work has been completed.

If a contract inspector inspection is requested, the underwriter must provide a copy of HUD's list of required repairs to the inspector. Payment for the inspection must come from the \$200 maximum allowable fee for establishing the escrow account.

#### **Completion of Repairs**

Generally, all repairs are to be completed by the borrower within 90 days of closing.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage.

If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost.

#### **Calculating Maximum Mortgage with Repair Escrow**

The maximum mortgage amount and minimum cash investment must be calculated using form [HUD-92900-LT](#).

#### **HUD Forms**

For repair escrows, a completed "Mortgagee's Assurance of Completion, [form HUD-92300](#), should be included in the case binder submitted for insurance endorsement and a completed "Compliance Inspection Report," [form HUD-92051](#) must be submitted after completion of repairs.

Refer to: 4310.5 REV-2; Mortgagee Letter [ML 95-56](#); Mortgagee Letter [ML 00-27](#).



PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### **FHA Resale Requirements**

#### **Property Flipping**

Property flipping is a practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value.

To address the issue of property flipping, FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property, including 203(k) loans.

#### **Resale Less Than or equal to 90 Days**

The following are Plaza's guidelines for properties that meet FHA's Temporary Flip Waiver where the seller has been in title 90 days or less:

- The FHA flipping waiver applies only to fully executed sales contract dates on or before December 31, 2014.
- All transactions must be arms-length; no identity of interest between buyer, property seller or third parties.
- Seller must hold title to the property and be represented on the contract of sale.
- In cases where a limited liability company, corporation, or trust is serving as the seller, proof is required that they are established and operating in accordance with applicable state and federal law. Examples of acceptable proof include; articles of incorporation with the seal, active business license or a print out from state licensing divisions website.
- No pattern of previous flipping activity exists for the subject property as evidenced by multiple title transfers within a 12 month time frame (chain of title information for the subject property can be found in the appraisal report or within the title report)
- The property was marketed openly and fairly, through a multiple listing service (MLS), auction, for sale by owner offering, or developer marketing. Examples of acceptable proof include; MLS listing as identified on the appraisal, for sale by owner advertisement or auction roster. (Any sales contracts that refer to an "assignment of contract of sale", which represents a special arrangement between seller and buyer may be a red flag).

#### **In cases in which the sale of the subject property is greater than 20 percent above the seller's acquisition cost the following are required:**

- A full second appraisal in compliance with FHA's standards and completed by an FHA roster appraiser, which verifies that the seller has completed sufficient legitimate renovations, repairs, and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is performed, the appraiser must provide appropriate explanation of the increase in property value since the prior title transfer.

**Note:** Second appraisal will be ordered by Plaza through the appraisal management company, Rels Valuation. No variance is allowed. The cost of the second appraisal cannot be charged to or passed on to the borrower. Any second appraisal costs incurred by Plaza will be charged to the seller or may be paid by the broker if the broker's compensation is paid by the borrower (Borrower Paid Compensation).

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Resale Less Than or equal to 90 Days, continued

- A property inspection must be reviewed and approved by the underwriter. At a minimum, the inspection must include:
  - The property structure, include the foundation, floor, ceiling, walls and roof.
  - The exterior, including siding, doors, windows, appurtenant structures such as decks and balconies, walkways and driveways.
  - The roofing, plumbing system, electrical system, heating and air conditioning system.
  - All interiors. **AND**
  - All insulation and ventilation systems, as well as fireplace and solid fuel-burning appliances.

**Note:** Borrower must acknowledge in writing that they were provided a copy of the property inspection report prior to closing. The inspector must have no interest in the property or relationship with the seller. If the inspection report Notes that repairs are required because of structural or “health and safety” issues, those repairs must be completed prior to closing. After completion of repairs to address structural or “health and safety” issues, the inspector must conduct a final inspection to determine if the repairs have been completed satisfactorily and eliminated the structural or “health and safety” issue.

### Transactions involving one of the following exemptions are not subject to the restrictions above:

- FHA REO properties sold by FHA.
- Resale of properties purchased by an employer or relocation agency in connection with employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- A builder selling a newly built home or building a home for a homebuyer wanting to use FHA-insured financing (example: A builder selling to another builder prior to the completion of a home would be exempt from the time restrictions.)
- Property inherited by the property seller. The property seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The property seller must still be the owner of record but the 90 day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sales of properties by state and federally chartered financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). Note: Mortgage Insurance companies are not considered a state or federally chartered financial institution and are not qualified as a GSE.
- Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
- Sales of properties by local and state government agencies.
- Sales of properties within Presidentially-Declared Disaster Areas, upon FHA's announcement of eligibility in a mortgage letter specific to said disaster.

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PLAZA HOME MORTGAGE, INC.

## FHA Fixed and ARM

### Resale Less Than or equal to 90 Days, continued

#### Property Eligibility

Property eligibility is dependent upon the time that has elapsed between the date the seller acquired the property (based on the settlement date) and the date the buyer signed the sales contract or purchase offer (the resale date).

If you are uncertain about property eligibility, check with your local Home Ownership Center (HOC).

#### Resale Greater Than 90 Days

Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation, including an additional appraisal as follows:

- If the resale price is greater than or equal to 100% over the property seller's acquisition price, a second FHA appraisal (from a new appraiser) is required. The second appraisal must be paid for by the originating lender. If the resale price is less than 100% of the property seller's acquisition price, then no additional appraisal documentation is required.

#### Unexpired Redemption Period

Foreclosed properties that are located in a state where a redemption period is allowed (including Fannie Mae and Freddie Mac owned or HUD REO) are not eligible until all of the following are met:

- The redemption period has expired. **AND**
- The foreclosure sale has been confirmed. **AND**
- Clear and marketable title is obtained.



PLAZA HOME MORTGAGE, INC.

**FHA Fixed and ARM**

**ARM Product Characteristics**

Characteristic	ARM			
<b>Amortization Term</b>	30 years			
<b>Index</b>	<b>Treasury</b> Weekly average on U.S, Treasury securities adjusted to a constant maturity of one year.			
<b>Margin</b>	2.000%			
<b>Life Floor</b>	5% below the start rate, but never lower than the margin.			
<b>Interest Rate Caps</b>	<b>Product</b>	<b>First Adjustment</b>	<b>Subsequent Adjustments</b>	<b>Lifetime</b>
	3/1	1%	1%	5%
	5/1	1%	1%	5%
<b>Interest Rate Adjustment Date</b>	3/1	The first adjustment is 36-42 months after the first payment date		
	5/1	The first adjustment is 60-66 months after the first payment date.		
	After the initial fixed period, the interest rate may adjust annually.			
<b>Payment Adjustment Date</b>	The payment adjustment date is the first of the month following the interest rate adjustment and every 12 months thereafter.			
<b>Conversion Option</b>	Not allowed.			
<b>Temporary Buydowns</b>	Not allowed.			