FHA Fixed and ARM Conforming & High Balance Program Guidelines

Revised 10/15/2019 rev. 105

(Click the link to go straight to the section)

Section 1 Program Summary

Plaza offers FHA fixed Rate and the 5/1 Fixed Period ARM. These guidelines are Plaza's FHA Program Guidelines and are intended to supplement FHA's guidelines. All loans must meet Plaza and FHA Guidelines. Refer to the FHA Single Family Housing Policy Handbook 4000.1 for FHA Requirements. Plaza also offers FHA's 203(k) rehabilitation loan program; for 203(k) loans, refer to Plaza's **FHA 203(k) Program Guidelines**.

AllRegs Version of FHA Single Family Housing Policy Handbook 4000.1
PDF Version of FHA Single Family Housing Policy Handbook 4000.1

Section 2 Product Codes

Product Name	Product Code	Available Term in Months
FHA 5/1 ARM	FHA51T	360
FHA 15 Year Fixed	FHA150	121-180
FHA 20 Year Fixed	FHA200	181-240
FHA 30 Year Fixed	FHA300	241-360
FHA 5/1 ARM High Balance	FHA51THB	360
FHA 15 Year Fixed High Balance	FHA150HB	180
FHA 30 Year Fixed High Balance	FHA300HB	360
FHA 15 Year Fixed **Streamline**	FHA15S	121-180
FHA 20 Year Fixed **Streamline**	FHA20S	181-240
FHA 30 Year Fixed **Streamline**	FHA30S	241-360
FHA 30 Year Fixed High Balance **Streamline**	FHA300HBS	360

Conforming Balance – Primary Residence Excluding Manufactured Housing					
Purpose	**LTV**	**CLTV**	**Min Credit Score**	**Max DTI Underwriting Method**	
				AUS	**Manual**
Purchase	96.5%	100%[3]	640	Per AUS	Per 4000.1[5]
			620	See Footnote 6	Per 4000.1[5]
			580[1]	See Footnote 6	Per 4000.1[5]
Rate/Term Refinance or Simple Refinance	97.75%[4]	97.75%[4]	640	Per AUS	Per 4000.1[5]
			620	See Footnote 6	Per 4000.1[5]
			580[1]	See Footnote 6	Per 4000.1[5]
Cash-out Refinance	80%[7]	80%[7]	640	Per AUS	Per 4000.1[5]
			620	See Footnote 6	Per 4000.1[5]
Streamline Refinance (current loan not serviced by Plaza)	N/A	N/A	620	N/A[2]	N/A[2]
Streamline Refinance (current loan serviced by Plaza)			580		

High Balance – Primary Residence Excluding Manufactured Housing					
Purpose	**LTV**	**CLTV**	**Min Credit Score**	**Max DTI Underwriting Method**	
				AUS	**Manual**
Purchase	96.5%	96.5%	640	Per AUS	Per 4000.1[5]
			620	See Footnote 6	Per 4000.1[5]
Rate/Term Refinance or Simple Refinance	97.75%[4]	97.75%[4]	640	Per AUS	Per 4000.1[5]
			620	See Footnote 6	Per 4000.1[5]
Cash-out Refinance	80%[7]	80%[7]	640	Per AUS	Per 4000.1[5]
Streamline Refinance (current loan not serviced by Plaza)	N/A	N/A	620	N/A[2]	N/A[2]
Streamline Refinance (current loan serviced by Plaza)			580		

Conforming Balance – Primary Residence Manufactured Housing					
Purpose	**LTV**	**CLTV**	**Min Credit Score**	**Max DTI Underwriting Method**	
				AUS	**Manual**
Purchase	96.5%	96.5%	640	Per AUS	N/A
Rate/Term Refinance or Simple Refinance	97.75%[4]	97.75%[4]	640	Per AUS	N/A
Streamline Refinance	N/A	N/A	640	N/A[2]	N/A[2]

1. Minimum 620 Credit Score required for 3-4 unit properties.
2. Credit qualifying Streamlines must be manually underwritten and have the same DTI ratio requirements as the Rate/Term and Simple Refinances.
3. On conforming balance purchase transactions there is no maximum CLTV for secondary financing provided by Governmental Entities, HOPE grantees, or by HUD-approved Nonprofits. Refer to **4000.1.II.A.4-Secondary Financing (TOTAL)** for eligible secondary financing, CLTV limits, and Borrower Minimum Investment (MRI) requirements.
4. Maximum LTV is 85% if the borrower has not owned and occupied the property for the last 12 months. If the property has been owned less than 12 months and has been owner occupied since acquisition then the LTV is not restricted to 85%. Seasoning is based on case number assignment date.
5. Manually underwritten loans with debt ratios exceeding 31/43 may be allowed subject to meeting required compensating factors. Refer to **4000.1.II.A.5-Approvable Ratio Requirements (Manual)** for requirements.
6. Compensating Factor Requirements for AUS approved loans with Credit Score < 640 and DTI > 43%:

DTI	Compensating Factors

> 43% < 50%	Two of the following:
	• verified and documented cash reserves
	  ○ 3 months (1-2 unit properties)
	  ○ 6 months (3-4 unit properties)
	• minimal increase in housing expense
	• residual income
	• significant additional income not reflected in effective income; and/or
	• pre-purchase housing counseling

≥ 50%	Ineligible for financing unless both of the following are met: • No increase in housing expense • Minimum 3 months reserves after closing

7. Effective for case numbers assigned on or after September 1, 2019, the maximum LTV/CLTV for cash-out refinances is 80%. For case numbers assigned on or before August 31, 2019 the maximum LTV/CLTV is 85%.

Energy Efficient Mortgage: 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 LTV may exceed those above in these scenarios. Use program code: FHA300EM or FHA300HBEM.

Good Neighbor Next Door: 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: When a borrower is using the HUD REO program to purchase a property, LTV may exceed those above. Use program code: FHA300RE or FHA300HBRE.

Section 4 Occupancy

Primary Residence Only:

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

- 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 1 year. The only exceptions allowed are due to hardship or extenuating circumstances.
- 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.

Mortgagors Who Will Re-Occupy a Former Investment Property:

When the subject property is a former investment property that the borrowers are now re-occupying:

- Seasoning is calculated based on the loan application date.
- Maximum financing is allowed when 12 months or more occupancy seasoning exists.
- When < 12 months occupancy seasoning exists:
    - Maximum LTV/CLTV 85% for a rate/term transaction
    - Streamlines are not allowed.

Additional FHA-insured Mortgage on a New Principal Residence:

A Borrower may be eligible to obtain a second FHA-insured Mortgage without being required to sell an existing property covered by an FHA-insured Mortgage if the Borrower:

- Is relocating or has relocated for an employment-related reason to an area more than 100 miles from the Borrower's current Principal Residence. **OR**
- Has an increase in family size. **OR**
- Is vacating a jointly owned property. **OR**
- Was a non-occupying co-borrower.

Refer to **4000.1.II.A.1.b-Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower**.

Section 5 Transactions

- Purchase
- Rate/Term Refinance
- Simple Refinance
- Cash-Out Refinance
- Streamline Refinance

Rate and Term Refinance:

All proceeds are used to pay existing liens and costs associated with the transaction. The mortgage being paid off is not required to be an FHA-insured mortgage. Cash back to the borrower is not allowed with the exception of minor adjustments at closing, provided the amount does not exceed $500.

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

Existing Debt:

Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months (seasoning based on the note date of the new loan), borrower-paid closing costs, prepaid expenses, borrower paid repairs required by the appraisal, discount points, and then subtract any refund of UFMIP.

Existing First Mortgage:

- 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 and the MIP due on the existing mortgage. 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, flood insurance, mortgage insurance premium and any real estate tax deposits needed to establish the escrow account.

Equity Line of Credit:

If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage.

Buy Out Co-mortgagor Equity:

If the new loan is used to refinance an existing mortgage to buy out an ex-spouse's or other co-mortgagors' 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.

Simple Refinance:

All proceeds are used to pay the existing FHA-insured lien and costs associated with the transaction. The mortgage being paid must be an FHA-Insured mortgage. Cash back to the borrower is not allowed with the exception of minor adjustments at closing, provided the amount does not exceed $500.

A Simple Refinance allows a borrower to include closing costs and prepaid items in the loan amount provided there is sufficient equity in the subject property. Additionally, borrowers are able to benefit from the lower Mortgage Insurance Premium (MIP) afforded to Streamline refinances of FHA-insured loans endorsed on or before May 31, 2009. A simple refinance requires an appraisal and full credit qualifying.

The maximum mortgage amount is per the calculation described below, and may never exceed the **Nationwide Mortgage Limit** except by the amount of any new up-front MIP.

The maximum loan amount is the lesser of the sum of:

- The existing principal balance
- Plus the interest due and the MIP due on the existing mortgage
- Late charges
- Escrow shortages

- Minus the applicable refund of UFMIP
- Plus closing costs, prepaid items to establish the escrow account and the new Up Front Mortgage Insurance Premium (UFMIP) that will be charged on the refinance, **OR**
- 97.75% of the appraised value of the property for properties acquired over 12 months from the case number assignment date. If the property was acquired within 12 months of the case number assignment date, refer to **Refinances – Calculating Adjusted Value**
- 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 and flood insurance premium deposits
- Monthly MIPs **AND**
- Any real estate tax deposits needed to establish the escrow account.

Refer to **4000.1.II.A.8-Simple Refinance**.

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 prepaid items, closing costs, and the disbursement of cash to the borrower.

- The borrower must have made at least six consecutive monthly payments on the mortgage that is being refinanced beginning with the payment made on the first payment due date.
- The first payment due date of the refinance loan must occur no earlier than 210 days after the first payment due date of the existing loan.
- The borrower must have owned and occupied the subject property as their principal residence for the 12 months prior to the date of case number assignment.
    - Exceptions are allowed in the case of inheritance.
- A non-occupant co-borrower can not be added to the cash-out refinance transaction.
- Manufactured Housing is not eligible for cash-out.

  Refer to **4000.1.II.A.8.v-Cash-Out Refinances**.

Refinances - Calculating Adjusted Value:

- For properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:
    - the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
    - the Property Value.
- For properties acquired by the Borrower greater than or equal to 12 months prior to the case number assignment date, the Adjusted Value is the Property Value.
- Inherited Properties: Properties acquired by the Borrower within 12 months of the case number assignment date by inheritance or through a gift from a family member may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.

Streamline Refinance: Refer to the **Streamline Refinance** section later in this document.

Properties Listed For Sale in the Last 6 Months:

Refinances of properties listed for sale are not permitted. The listing agreement must be cancelled at least 1 day prior to the date the application is taken. Streamline Refinances without an appraisal require a signed affidavit by the borrower confirming the subject property was not listed for sale at the time of application.

Section 6 Property Flips/ Resale Requirements

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.

Property eligibility is based upon the time that has elapsed between the date the seller obtained legal ownership of the property (based upon the date of settlement) and the date the buyer and seller execute the sales contract that will result in the FHA mortgage insurance (the re-sale date).

If uncertain about property eligibility, check with the local Homeownership Center (HOC).

Resale Less Than or Equal to 90 Days: If the re-sale date is 90 days or less following the date of acquisition by the seller, the property is not eligible for a mortgage to be insured by FHA.

Transactions involving one of the following exemptions are not subject to the time restrictions on resale mentioned 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 charted financial institutions and Government Sponsored Enterprises (GSE) (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 mortgagee letter specific to said disaster.

Resale Greater Than 90 Days: Loans with resale dates greater than 90 days and up to 180 days are generally eligible for a mortgage insured by FHA but may require supplemental documentation, including an additional appraisal.

- 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 cannot be provided by or paid for by the borrower. 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.

Refer to **4000.1.II.A.1.b-Restrictions on Property Flipping**.

Section 7 Identity of Interest

The terms Identity of Interest and Non-Arms Length describe certain transactions between parties with family or business relationships that may pose increased risk and warrant additional precautions when evaluating that risk.

Refer to **4000.1.II.A.2.b-Limitations Based on Identity of Interest**.

Section 8 Loan Limits

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

- The **Nationwide Mortgage 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.
- Manufactured Housing is not eligible for High Balance loan limits.

Maximum Base Loan Amount				
Unit	**Contiguous States**		**Hawaii[1]**	
	Standard	**High Balance**	**Standard**	**High Balance**
1	$484,350	$726,525	$721,050	N/A
2	$620,200	$930,300	$923,050	N/A
3	$749,650	$1,124,475	$1,115,800	N/A
4	$931,600	$1,397,400	$1,386,650	N/A

1. There are no properties in Hawaii with loan limits higher than the applicable base conforming limits for 2019. As a result, there are no High Balance limits specific for this state.

Maximum base loan amounts are county specific and may be lower in a particular county.

Maximum loan limits are determined by geographic areas. HUD's website contains a complete schedule of FHA **Nationwide Mortgage Limits**.

Section 9 Subordinate Financing

New or existing subordinate financing is allowed per the LTV/CLTV limits.

Properties with Property Assessed Clean Energy (PACE) obligations are ineligible.

- Any PACE obligations or liens must be paid and satisfied at or prior to closing.
- PACE liens may not be subordinated.

Refer to **4000.1.II.A.4-Secondary Financing (TOTAL)** and **4000.1.II.A.4-Secondary Financing (Manual)**.

Section 10 Borrower Eligibility

Eligible Borrowers:

- U.S. citizens
- Permanent resident aliens
- Non-permanent resident aliens
- Non-occupant co-borrowers

Non-permanent Resident Aliens:

- Must be principal residence (non-owner Streamlines not allowed)
- Have a valid Social Security number.
- Are eligible to work in the United States as evidenced by an Employment Authorization Document (EAD) issued by the USCIS.
    - A Social Security card cannot be used as evidence of work status.

Occupying and Non-occupying Borrowers and Co-borrowers:

- Must take title to the property at settlement.
- Are obligated on the mortgage Note. **AND**
- Must sign all security instruments.

Non-occupant Borrowers:

- For Non-Occupying Borrower Transactions, the maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% if the Borrowers are family members as defined in **4000.1.II.A.2.B-Maximum LTV for Non-Occupying Borrower Transaction**, provided the transaction does not involve:
    - A family member selling to a family member who will be a non-occupying Co-Borrower; **OR**
    - A transaction on a 2-4 unit property
- 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). 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 **4000.1.II.A.2-LTV Limitations Based on Non-Occupying Borrower Status** for additional details and requirements.
- Loans with LTVs greater than 75% are limited to 1-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.

First Time Home Buyers:

- A first time homebuyer is defined as a borrower who has had no ownership interest, sole or joint, in a principal residence during the 3 year period preceding the date of purchase of the subject property.
- A borrower does not have to have housing counseling in order to obtain an FHA mortgage. However, housing counseling is still highly encouraged for first time buyers.
- For information on housing counseling and to find a counselor go to the following HUD website: **http://portal.hud.gov/hudportal/HUD?src=/i_want_to/talk_to_a_housing_counselor** or call HUD's interactive voice system at 1-800-569-4287.

Valid Social Security Number:

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, W-2 or other government-issued card that includes the borrower's Social Security number.
- FHA requires validation of Social Security numbers for consistency with the borrower's name through FHA Connections.

Ineligible Borrowers:

- Charitable organizations
- Non-profit agencies
- State or local government agencies
- Foreign Nationals

Section 11 Underwriting Method

All loans, with the exception of Streamline Refinances, must be decisioned through FHA TOTAL Scorecard. Provide a copy of the TOTAL Scorecard recommendation from DU or LPA. With the exception of manufactured housing, which requires an AUS approval, loans not receiving an acceptable AUS result must be manually underwritten subject to eligibility.

Transaction Type	Underwriting Method	Acceptable AUS Results
Purchase, Rate/Term, Simple Refinance, Cash-Out Refinance	DU, LPA, Manual	Approve/Eligible or Accept/Pass
Streamline Refinance	Manual	N/A

Regardless of the risk assessment made by TOTAL, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity and documentation requirements covered herein.

Manual Underwriting: For loans that receive an AUS Refer or that otherwise require a downgrade to manual underwriting, refer to **4000.1.II.A.4-Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)** and to **4000.1.II.A.5-Manual Underwriting of the Borrower**.

Manufactured Housing is not eligible for manual underwriting.

Credit Score:

- Conforming Balance Purchase, Rate/Term or Simple Refinance transactions
  - Excluding Manufactured Housing: **580** Credit Score.
  - Manufactured Housing: **640** Credit Score.
- Conforming Balance Cash-out refinance: **620** Credit Score.
- High Balance Purchase, Rate/Term or Simple Refinance transactions: **620** Credit Score.
- High Balance Cash-Out refinance: **640** Credit Score.
- For Streamline Refinances refer to the **Streamline Refinance** section of these Guidelines.

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

Qualifying Credit Score:

- A tri-merge credit report is required on all loans.
- The qualifying score is the lower of two or the middle of three scores.
- The lowest qualifying score of all applicants is used to qualify.
- Each borrower must have at least one credit score.

Housing Payment History:

- For purchases and non-streamline refinances, the mortgage payment history may be deemed satisfactory when the mortgage credit rating is disclosed on the credit report, is evaluated by the AUS, and the loan receives an "Approve/Eligible" or "Accept/Eligible" recommendation.
- The rental payment history will be deemed acceptable per the AUS findings for loans that receive an "Approve/Eligible" or "Accept/Eligible" recommendation.
- When the housing payment history is not evaluated by an AUS, or for Refer/manually underwritten loans:
  - There may be no history of any 30-day late mortgage or rental payments within the last 12 months.
  - There may be no more than two 30-day late mortgage or rental payments in the previous 24 months.
  - The housing payment history must be documented by:
    - The credit report; or
    - VOR received directly from the landlord (for landlords with no Identity of Interest with the borrower); or
    - VOM received directly from an institutional mortgage servicer; or
    - Canceled checks that cover the most recent 12-month period.
- Streamline refinances must have 0 x 30 mortgage lates in the last 12 months.
- Borrowers who are living rent free are eligible provided the Mortgagee obtains verification directly from the property owner that the borrower has been living rent-free and the amount of time the borrower has been living rent free.

Revolving and Installment Accounts - Manually Underwritten Loans:

- Installment Accounts must have no more than 0 x 30 in the last 12 months and 2 x 30 in the last 24 months.
- Revolving Accounts must have no more than 2 x 60 or 0 x 90 in the last 12 months.

Non-traditional Credit - Manually Underwritten Loans:

- All loans require a credit score. Borrowers without a minimum qualifying credit score are ineligible.
- Manually underwritten loans require sufficient credit depth. To demonstrate sufficient credit depth, borrower credit on manually underwritten loans must fit into one of the following scenarios. Borrowers whose traditional credit does not meet one of the following scenarios must supplement their traditional credit with non-traditional credit.
    a. The borrower has three traditional 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.
    b. The borrower has two traditional trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.
    c. The borrower has a traditional credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months.

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 trade lines. Non-traditional trade lines can only be used to build on traditional credit.

Refer to **4000.1.II.A.5-Non-Traditional and Insufficient Credit (Manual)**

Bankruptcy: Borrowers with a previous Chapter 7 or Chapter 13 bankruptcy must meet the requirements in **4000.1.II.A.4-Bankruptcy (TOTAL)** or **4000.1.II.A.5-Bankruptcy (Manual)**.

Foreclosures, Deed in Lieu, Pre-foreclosures and Short Sales: Borrowers must meet the requirements in **4000.1.II.A.4-Foreclosure and Deed in Lieu of Foreclosure (TOTAL)** or **4000.1.II.A.5-Foreclosure and Deed in Lieu of Foreclosure (Manual)**.

Consumer Credit Counseling: Consumer Credit Counseling does not require a downgrade to manual underwriting. For manual underwriting refer to the **4000.1.II.A.5-Credit Counseling/Payment Plan (Manual)**.

Collections, Judgments & Charge-offs:

- **Explanation:** No documentation or letter of explanation is required for loans run through TOTAL Mortgage Scorecard receiving an “Accept/Approve” despite the presence of collection accounts, charge-offs or judgments. These accounts have been already taken into consideration in the borrower’s credit score.
- **Including payment:** 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 DTI ratio. Payment amounts for charge-offs are not included.
- **Refer:** If TOTAL Mortgage Scorecard generates a “Refer,” the underwriter must manually underwrite the loan. The underwriter must document reasons for approving a mortgage when the borrower has collection accounts, charge-offs 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, charge-off and judgment. The explanation and supporting documentation must be consistent with other credit information in the file.

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 DTI 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.

Tax Liens:

Tax liens may remain unpaid if:

- The Borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt. **AND**
- The Borrower has made timely payments for at least 3 months of scheduled payments.
- The Borrower cannot prepay scheduled payments in order to meet the required minimum of 3 months of payments.
- The lien holder must subordinate the tax lien to the FHA-insured Mortgage.

Capacity Analysis for the Payment/Payoff of Collections, Judgments and Disputed Accounts:

- 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.

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.

TOTAL Mortgage Scorecard Accept/Approve Loans with Disputed Derogatory 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 DE 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	• Disputed medical accounts are excluded from the $1,000 limit and do not require documentation. • 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.

Non-derogatory Disputed Accounts:

- 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.

Section 13 Income and Employment

Refer to **4000.1.II.A.4-Income Requirements (TOTAL)** or **4000.1.II.A.5-Income Requirements (Manual)**.

Verbal Verification of Employment:

- Required on all loans.
- VOE must cover the most recent 2-year period.
- Must be performed within 10 days of the loan closing.

Verbal VOE for Self Employed Borrowers:

- 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 associate that performed the verification.

Rental Income from Retained Residence:

In order to use rental income from the property being vacated by the borrower:

- Borrower must be relocating to an area more than 100 miles from the borrower's current Principal Residence.
- Borrower must provide a lease agreement of at least 1 year's duration after the Mortgage is closed.
- Borrower must provide evidence of the payment of the security deposit or first month's rent.
- Borrower must have at least 25% equity in the property being vacated as evidenced by an appraisal. The appraisal must also provide market rent. The appraisal is not required to be completed by an FHA Roster Appraiser.

IRS Form 4506-T:

- All transactions except Streamline refinances require a signed and dated IRS Form 4506-T for all borrowers completed prior to closing.
- Refer to Plaza's **Tax Transcript Guidelines** to determine if transcripts are required.

Section 14 Qualifying Ratios

Debt Ratios: Refer to the **Program Matrix** for specific debt ratio requirements by loan scenario.

Qualifying Rate: Fixed Rate and 5/1 ARM Loans: Qualify based on the Note rate.

Installment Debt:

- Payments on all installment debts with 10 months or more of remaining payments must be included in the DTI.
- Installment debts may be excluded if they will be paid off within 10 months **AND** the cumulative payment of all such debts are less than or equal to 5% of the borrower's gross monthly income.
- Installment accounts cannot be paid down to 10 months in order to be excluded.

Auto Lease: Payment must be included in the DTI regardless of the remaining number of payments.

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.

30-Day Accounts:

- In order to exclude payment in the debt ratio, the borrower must have paid the outstanding balance in full on every 30-day account each month for the past 12 months.
- If there are any late payments in the last 12 months, a payment of 5% of the outstanding balance must be used.
- Sufficient funds to pay off the account, in excess of funds required to close and for reserves, must be documented.

Deferred Obligations: Deferred obligations (excluding Student Loans) must be included in the borrower's liabilities. Written documentation of the deferral including the outstanding balance and terms of the deferred liability must be obtained from the creditor.

- The actual monthly payment (after deferral) must be used when available.
- If the payment is not known, the greater of the terms of the debt or 5% of the outstanding balance must be used.

Student Loans: Refer to **FHA Mortgagee Letter 2016-08**:

- All Student Loans must be included in the borrower's liabilities regardless of payment type or status of payments.
- The amount included in the liabilities must be:
  - the greater of 1% of the outstanding balance or the monthly payment reported on the borrower's credit report; or
  - The actual documented payment provided the payment will fully amortize the loan over its term. Documentation must include:
    - The actual monthly payment
    - The payment status
    - Evidence of the outstanding balance
    - Terms from the creditor

Authorized User: Payments on accounts for which the borrower is an authorized user must be included in the debt ratio, unless:

- It can be documented that the primary account holder has made all required payments in the last 12 months, **AND**
- At least 3 payments have been required in the last 12 months

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: Refer to **4000.1.II.A.4-Contingent Liabilities (TOTAL)** or **4000.1.II.A.5-Contingent Liabilities (Manual)**.

Down Payment:

- On purchase transactions the borrower must make Minimum Required Investment (MRI) of 3.5% of the lesser of the appraised or sales price. This amount is in addition to any borrower closing costs.
- The deposit amount and source of funds must be documented if the amount of the earnest money deposit exceeds 1% of the sales price or is excessive based on the Borrower's history of accumulating savings.
- All funds that are used for the purpose of qualifying for or closing a Mortgage must be documented, including those to satisfy debt or pay costs outside of closing.
- The existence of and amounts in the Borrower's checking and savings accounts must be documented and verified. For recently opened accounts and recent individual deposits of more than 1% of the Adjusted Value, documentation of the deposits must be obtained. It must also be verified that no debts were incurred to obtain part, or all, of the MRI.

Gift Funds:

Gifts Funds, including gifts of equity are allowed and may be used to meet the borrower's MRI. Refer to **4000.1.II.A.4-Gifts (Personal and Equity) (TOTAL)** or **4000.1.II.A.5-Gifts (Personal and Equity) (Manual)**.

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

- The borrower's family member
- 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. Cash-on-hand is not an acceptable source of donor gift funds.

Unacceptable Gift Funds:

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 down payment assistance, real estate agent or broker, builder, or any entity associated with them. This restriction may be waived by the local FHA HOC, certain restrictions and requirements apply.

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.

Gift Transfer Documentation:

If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.

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.

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 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 RESCORED AS REFER; MANUAL UNDERWRITING REQUIRED; ZFHA INVALID".

Down Payment Assistance from Charitable Organizations/Non-Profit Agencies:

For complete requirements on Down Payment Assistance refer to **4000.1.II.A.4-Downpayment Assistance Programs (TOTAL)** or **4000.1.II.A.5-Downpayment Assistance Programs (Manual)**.

FHA does not approve specific 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 non-profit 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 non-profit agency. This must be a condition of loan closing.

Seller-Funded Non-Profit Agencies: Not allowed. Examples include: Nehemiah and Ameridream.

Requirement for Federal Tax Identification:

If the non-profit agency is providing down payment assistance in the form of a gift, enter the Federal Tax identification number of the non-profit 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.

Section 16 Reserves

Reserve Requirements:

- Cash reserves are not a requirement for 1-2 unit FHA loans approved through TOTAL Scorecard.
- 1 month reserves are required for Manual Underwriting.
- All assets submitted to TOTAL Scorecard must be verified.
- 3-4 unit properties:
    - 3 months PITIA are required.
- Gift funds are not acceptable for reserves with manual underwriting.

Refer to **4000.1.II.A.4-Reserves (TOTAL)** or **4000.1.II.A.5-Reserves (Manual)**.

Section 17 Interested Third Party Contributions

Interested Party Contributions are limited to 6%

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.

Closing Costs Paid by Seller:

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.

Real Estate Commissions:

- Sales commission consistent with the prevailing rate but not to exceed 6 percent. Anything exceeding this amount is considered a sales concession and that excess commission and/or bonus 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.

Fees for Builder Forward Commitments:

- 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.

Refer to **4000.1.II.A.4-Interested Party Contributions (TOTAL)** or **4000.1.II.A-5-Interested Party Contributions (Manual)**.

Eligible Properties:

- Attached/detached SFRs
- Attached/detached PUDs
- FHA-approved Condos
- Single Unit Approved (SUA) Condos
- 2 - 4 Units
- HUD-owned properties underwritten to HUD guidelines
- Manufactured Housing

Single Unit Approved (SUA) Condos:

- TOTAL Scorecard Accept required for LTV > 90%
- A full project review must be completed by Plaza's Project Standards department
- **HUD Form 9991 (FM-486)** along with all documents required per the **FHA Single Unit Approval Document Checklist (FM-530)** must be sent to Plaza's Project Standards department for approval
- General SUA requirements are listed below. Refer to **Plaza's Project Standards** for full SUA requirements.
  - Must be an established project with 5+ units
  - Project with manufactured homes are not eligible
  - 50% or more owner occupancy required
  - Single Entity Ownership maximum of 10% for projects with 20+ units and maximum 1 unit for projects with fewer than 20 units
  - FHA Concentration maximum of 10% for projects with 20+ units and maximum 2 units for projects with fewer than 20 units

Manufactured Housing:

- Must be classified as Real Property
- The Manufactured Home must have been built on or after June 15, 1976
- Double-wide minimum width
- Leasehold properties are ineligible
- Condo projects comprised of manufactured homes are ineligible
- The manufactured home may not have been previously installed or occupied at another location
- All manufactured housing must meet FHA guidelines, restrictions in these Program Guidelines, and **Plaza's Manufactured Housing Guidelines**.
- Manufactured housing not eligible in states of Hawaii and Rhode Island.

Ineligible Properties:

- Commercial property
- Cooperatives
- Condotels
- Geothermal homes
- Geodesic Domes
- Mobile homes
- Non-warrantable condos
- Timeshares
- Working farms, ranches, orchards

Refer to **4000.1.II.B.1-Appraiser and Property Requirements**.

All appraisals for FHA loans must be completed by a HUD-approved appraiser

Property Type	Form Name/Number
Single-Family Residence, including PUD	Uniform Residential Appraisal Form (#1004 / # 70)
Condominiums	Individual Condo Appraisal Report (#1073 / # 465)
2-4 Units	Small Residential Income Property Appraisal Report (# 1025 / # 72)
Manufactured Housing	Uniform Residential Appraisal Form (#1004C / # 70B)
All 1-4 unit properties	Appraisal Updated and /or Completion Report 1004D/442

FHA High Balance Additional Appraisal Requirements:

In addition to standard appraisal requirements, the following additional requirements apply for loan amounts or total loan amounts including a concurrent second lien of greater than $1 million. These requirements do not apply to streamline refinances without appraisals.

- One full FHA appraisal completed by a Certified Appraiser.
- A desk review with data verification of Enhanced Desk Review with data verification.
  - The lesser of the appraised value, review value or the sales price will be used to determine the LTV/CLTV.

Plaza FHA Appraisal Transfer Policy:

Plaza will accept FHA appraisals from other lenders that meet the following criteria:

- Plaza must receive the original PDF and XML of the appraisal from the original lender
- The appraisal must include a Certificate of Compliance (COC) certifying the appraisal was ordered and completed in accordance with Appraiser Independence Requirements (AIR). The COC is normally issued by the AMC and accompanies the appraisal.
- Plaza must receive the last successful SSR from the original lender.
- FHA Connection must identify the appraiser who actually conducted the appraisal that is used for Insuring.
- Plaza's branch to confirm that the appraiser was on FHA active roster as of the effective date of the appraisal.
- The effective date of the appraisal must be after the FHA case number assignment date.
- For transactions that are brokered to Plaza the appraisal cannot be in the broker's name. This does not apply to Principal Authorized Agent Relationships or Correspondent loans sold to Plaza from FHA approved Lenders.
- Plaza may not request the appraiser to re-address the transferred appraisal. If Plaza finds deficiencies in the appraisal, a new appraisal must be ordered.
  - Both appraisals are to be retained in the loan file and case binder.
  - The file must be documented regarding why a second appraisal was ordered and retain the explanation in the case binder.
- The appraiser cannot be on Plaza's exclusionary list.

Section 20 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.
- Manufactured housing not eligible.

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.

Kansas: Properties located in the State of Kansas require the lender to obtain the market value. For Streamline refinances, this can be satisfied with the tax assessor's statement of value.

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 once a year during that time.

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

Rhode Island: Manufactured housing not eligible.

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

Section 21 Max Financed Properties

Maximum Loans/Maximum Exposure:

Borrowers are limited to one FHA Insured mortgage. There is no limit to the number of non-FHA insured financed properties a borrower may own. See the section **Additional FHA-insured Mortgage on a New Principal Residence** for more information.

A maximum of four Plaza loans is permitted to one borrower.

UFMIP Premiums:

Effective for loans with case numbers assigned **on or after January 26, 2015 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 and Simple Refinance Endorsed after 5/31/2009**	**Streamline and Simple Refinance Endorsed on or before 5/31/2009**
> 95%	1.75% / .85%	1.75% / .85%	0.01% / 0.55%
< = 95%	1.75% / .80%	1.75% / .80%	
LTV	**Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years**		
	Purchase and Refinance	**Streamline and Simple Refinance Endorsed after 5/31/2009**	**Streamline and Simple Refinance Endorsed on or before 5/31/2009**
> 90%	1.75% / 0.70%	1.75% / 0.70%	0.01% / 0.55%
< = 90%	1.75% / 0.45%	1.75% / 0.45%	

Effective for loans with case numbers assigned **on or after January 26, 2015 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 and Simple Refinance Endorsed after 5/31/2009**	**Streamline and Simple Refinance Endorsed on or before 5/31/2009**
> 95%	1.75% / 1.05%	1.75% / 1.05%	0.01% / 0.55%
< = 95%	1.75% / 1.00%	1.75% / 1.00%	
LTV	**Up-Front and Annual Mortgage Insurance Premium Mortgage Term Less Than or Equal to 15 Years**		
	Purchase and Refinance	**Streamline and Simple Refinance Endorsed after 5/31/2009**	**Streamline and Simple 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%	1.75% / 0.45%	1.75% / 0.45%	

Upfront Mortgage Insurance Premium (UFMIP) and Refinance Transactions:

If a borrower is refinancing an FHA-insured mortgage to another FHA insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the UFMIP on the new loan. See the table below for refund percentages.

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

Section 23 Escrow Accounts

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

Section 24 Repair Escrow

Both weather related and non-weather related holdbacks will be considered.

HUD REO repair escrows follow the sales contract and standard FHA guidelines. Refer to the **FHA EEM and Repair Escrow Process and Procedures, FM-060** for details. **Note:** HUD REO repair escrows are not allowed on manufactured homes.

Escrow holdbacks are not allowed on manufactured housing.

Section 25 ARM Adjustments

Characteristic	ARM			
Amortization Term	30 years			
Index	Treasury, weekly average of U.S, Treasury securities adjusted to a constant maturity of one year.			
Margin	2.000%			
Life Floor	5% below the start rate, but never lower than the margin.			
Interest Rate Caps	**Product**	**First Adjustment**	**Subsequent Adjustments**	**Lifetime**
	5/1	1%	1%	5%
Interest Rate Adjustment 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.			
Payment Adjustment Date	The payment adjustment date is the first of the month following the interest rate adjustment and every 12 months thereafter.			
Conversion Option	Not allowed.			
Temporary Buydowns	Not allowed.			

Section 26 Temporary Buydowns

Not allowed.

Section 27 Prepayment Penalty

Not allowed.

Section 28 Streamline Refinance

The FHA Streamline refinance program is a Fixed Rate, no cash-out program designed to lower the monthly principal and interest payments on a current FHA-insured mortgage.

Refer to **4000.1.II.A.8-Streamline Refinances**.

Income and Employment (Non-Credit Qualifying):

- Employment or source of income is not verified
- Income is not verified

Credit qualifying Streamline Refinances: Must be manually underwritten and have the same employment, income and DTI ratio requirements as the non-Streamline manual underwrite transactions referenced in the DTI Ratio Matrix.

Assets: Any borrower's funds to close exceeding the total Mortgage Payment of the new Mortgage must be verified in accordance with Sources of Funds. Refer to **4000.1.II.A.5-Sources of Funds**.

Appraisal: Appraisal is not required. If the applicant wishes to include closing costs and prepaids in the new loan amount and there is sufficient equity refer to **Simple Refinance**.

Higher-Priced Mortgages:

FHA non-credit qualifying Streamline Refinance transactions that are determined to be Higher-Priced Mortgages may be eligible provided the following requirements are met:

- Borrower is not 30 days or more past due on the prior existing residential mortgage loan.
- The loan does not increase the original principal balance.
- The points and fees do not exceed 3%. **AND**
- The new interest rate on the refinanced loan is lower than the current rate. If refinancing an ARM to a fixed rate, the FHA net tangible benefit as per HUD 4000.1.II.A.8.C(4)(c) applies.

If all of the previous requirements are not met then the loan must be processed and closed as a Credit Qualifying Streamline Refinance or as a **Simple Refinance**.

Minimum Credit Score:

- Streamline Refinances of loans currently serviced by Plaza: 580
- Streamline Refinances of loans not currently serviced by Plaza: 620
- Manufactured Housing: 640

Occupancy:

- Owner-occupied primary residences
    - On Non-Credit Qualifying Streamline Refinances, the borrower must provide utility bills to evidence they currently occupy the property as their Principal Residence.
- Investment properties
    - Manufactured Housing is not eligible.

Net Tangible Benefit (NTB):

The underwriter must determine there is a NTB as a result of the Streamline refinance transaction. The transaction must meet FHA and state, when applicable, NTB requirements.

- **Reduction in term:** Transactions that include a reduction in the mortgage term are acceptable provided:
    - The new interest rate does not exceed the current interest rate. **AND**
    - The combined (P&I and MIP) payment does not exceed the combined payment of the loan being refinanced by more than $50.
- **Fixed to ARM:** Not allowed. Streamline Refinancing from a Fixed Rate to an ARM is not eligible.

Note: Combined Rate refers to the interest rate plus the MIP rate.

From	To	Net Tangible Benefit
Fixed Rate	Fixed Rate	Reduction of at least .5 percentage points below the prior combined rate.
1-YR ARM	Fixed Rate	New interest rate no greater than 2 percentage points above the current combined rate of the ARM.
Fixed-Period ARM (During the Fixed Period)	Fixed Rate	New interest rate no greater than 2 percentage points above the current combined rate of the ARM.
Fixed-Period ARM (During Adjustable Period)	Fixed Rate	New interest rate no greater than 2 percentage points above the current combined rate of the Fixed-Period ARM.

Maximum Mortgage Term:

The maximum streamline mortgage term is the lessor of:

- 30 years **OR**
- Remaining term of the mortgage plus 12 years

Maximum Mortgage Amount:

Refer to the **FHA Streamline Refinance Maximum Mortgage Worksheet and NTB FM-286.**

Owner Occupied:

The lesser of:

- The outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus
    - Interest due on the existing mortgage; and
    - MIP due on the existing mortgage; or
- The original principal balance of the existing mortgage including financed UFMIP

Less: Any refund of UFMIP if financed in the original mortgage

Plus: Any new UFMIP that will be financed

Non Owner Occupied:

The lesser of:

- The <u>outstanding</u> principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; or
- The <u>original</u> principal balance of the existing mortgage including financed UFMIP

Less: Any refund of UFMIP if financed in the original mortgage

Plus: Any new UFMIP that will be financed

Discount Points: Discount point 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.

Cash back: 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.

Subordinate Financing: CLTV is based on the original appraised value of the property.

Underwriting Method: Manual underwriting is required.

Credit Report:

- A full credit report is not required on a non-credit qualifying streamline.
  - When a full credit report is not obtained, a mortgage only credit report with credit scores and key factors must be provided. If unable to obtain a mortgage only credit report with credit scores and key factors, a full credit report will be required.
  - Non-traditional credit is not allowed on credit qualifying streamlines.

Mortgage Rating: The mortgage being refinanced may not have any history of 30-day lates or greater in the last 12 months.

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.

Ownership Seasoning:

On the date of FHA case number assignment:

- The borrower must have made at least six consecutive monthly payments on the FHA-insured mortgage that is being refinanced beginning with the payment made on the first payment due date. **AND**
- At least six full months must have passed since the first payment due date of the Mortgage that is being refinanced; **AND**
- At least 210 days must have passed from the Closing Date of the mortgage that is being refinanced.

On the Closing Date of the new mortgage:

- The first payment due date of the refinance loan must occur no earlier than 210 days after the first payment due date of the existing loan.

Properties Listed For Sale: Not allowed.

- The listing agreement must be cancelled at least 1 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.

UFMIP and Annual Requirements:

- UFMIP is required. Refer to the **UFMIP** section for details.
- For the purposes of determining the UFMIP, use the original value of the property from the refinance authorization that was used to determine the LTV.
- Refinances of loans closed prior to July 1, 1991, are exempt from annual MIP. Loan files must include documentation that the mortgage being refinanced was closed on or before July 1, 1991.

Section 29 Energy Efficient Mortgages

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 national conforming loan limit. **OR**
- 115% of the median area price of a single family dwelling as provided by FHA Connection.

Plaza underwriters must complete the **FHA EEM Maximum Amount of Energy Improvements** and include the worksheet in the loan file.

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.

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.

Refer to **4000.1.II.A.8-Energy Efficient Mortgages**.

Section 30 Good Neighbor Next Door (GNND)

GNND aims to 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.

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

- 203(b)
- 234 (c)
- 251
- 203(k) - Refer to **FHA 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 3 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:

- Good Neighbor Next Door Sales Program - Officer **(HUD-9549-A)**
- Good Neighbor Next Door Sales Program – Teacher **(HUD-9549-B)**
- Good Neighbor Next Door Sales Program – Firefighters / Emergency Responder **(HUD-9549-C)**
- Employer Verification of Participant Employment **(HUD-9549-E)**

Refer to **4000.1.II.A.8-Good Neighbor Next Door.**

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 MPS for new construction to be eligible for this program.

Eligibility Requirements:

Property Types:

- Single-family dwellings
- Planned Unit Developments (PUDs)
- Condominiums (attached condominiums must be prior approved by FHA)
- 2-4 units
- Manufactured Housing

Borrowers: Individuals only

Occupancy: Owner-occupied

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 $10,000 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% of the estimated cost of the repairs. Note that properties designated insurable with repair escrow $10,000 or less in required repairs, may also be eligible for the 203(k) Streamline program, provided that the repairs qualify as eligible work items. See the **FHA 203(k) Program 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 $10,000. 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. See the **FHA 203(k) Program Guidelines** for requirements and restrictions.

Review of the HUD Sales Contract:

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.

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.

CHUMS Processing (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 W/Appraisal" for processing type.

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 HOC post the number in the CHUMS property disposition file.

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

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. 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 an individual water supply system (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.

Water supply (well) inspection requirements: Refer to **4000.1.II.A.3-Underwriting the Property**.

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. See the **FHA 203(k) Program Guidelines** for more information.

Down Payment: The maximum mortgage amount and minimum cash investment must be calculated using HUD-92900-LT.

Maximum Mortgage Calculation:

- The Adjusted Value: The lesser of the purchase price less any inducements to purchase; or the property value.
- The maximum mortgage amount and minimum cash investment must be calculated using form **HUD-92900-LT** and include the repair escrow amount when applicable.

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.

- 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 GNND program is an exception.

Closing Costs/Prepaid Expenses:

HUD may authorize on sales contract HUD paid closing costs that 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 on the sales contract, 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 $10,000 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.

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% 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 $10,000, the maximum escrow amount may not exceed $11,000.

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

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.

Inspection Upon Completion:

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.

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 **4000.1.II.A.8-HUD Real Estate Owned Processing**.

Attached PUD:

If the master or blanket policy does not provide interior unit coverage replacement of improvements and betterment coverage to cover any improvements that the borrower may have made, the borrower must obtain an HO-6 Policy or "walls-in" coverage, as determined by the insurer, which is sufficient to repair the attached PUD unit to its condition prior to a loss claim event.

Manufactured Housing:

Manufactured Homes located within a Special Flood Hazard Area are not eligible unless a FEMA National Flood Insurance Program (NFIP) Elevation Certificate **(FEMA Form 086-0-33)** prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation is provided, and flood insurance under the NFIP is obtained.

For all other insurance requirements refer to Plaza's **Loan Closing Manual**.