

## FHA Fixed and ARM

The mortgage is insured by the Federal Housing Administration (FHA). Any FHA guidelines not specifically addressed here can be located on FHA's website at [www.hud.gov](http://www.hud.gov) or <http://portal.hud.gov>. All loans delivered to Reunion Mortgage must be in compliance with published FHA guidelines. Loans that do not receive DU "Approve/Eligible" findings require second level review.

FHA Lender ID 16862-0000-5

### Product Codes

- F15            15 year Fixed Rate
- FJ15          15 year Fixed Rate
- F30            30 year Fixed Rate GNMA I
- F30II         30 year Fixed Rate GNMA II
- FJ30          30 year Fixed Rate
- F30BD21    30 year Fixed Rate with 2/1 Buydown
- F31T         3/1 Treasury ARM
- FJ31T        3/1 Treasury ARM

### Eligible Loan Types, Section of the Act and ADP Codes

Section of Act	ADP	Description
203(b)	703	Fixed Rate
203(b)	796	Fixed Rate with Buydown
203(b)/251	729	ARM
234(c)	734	Fixed Rate Condominium
234(c)/251	731	ARM Condominium

**FHA FIXED AND ARM****PROGRAM CODES: F15, F30, F30II, F30BD21, FJ15, FJ30, F31T, FJ31T****F15, F30, F30II, F31T**

Purpose	Units	LTV <sup>1</sup>	FICO
Purchase	1-4	96.5	640
R/T	1-4	97.75	640
Streamline	1-4	97.75 <sup>2</sup>	640
C/O	1-4	85	640

<sup>1</sup> Total loan amount including UFMIP is limited to 100% LTV (except Streamline without appraisal)

Note: The LTV is calculated on the Base Loan Amount.

<sup>2</sup>Streamline refinance without an appraisal may exceed 97.75%, however the Base Loan amount is limited to 100% of the Original Property Value listed on the Refinance Authorization from FHA Connection**F30BD21**

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## Appraisals

- Except for certain streamline refinance transactions, FHA requires an appraisal of the property to establish an estimated value for mortgage insurance purposes. All individual properties, whether proposed construction, under construction, or existing construction, must meet specific FHA appraisal requirements and standards.
- Case Numbers assigned 10/1/09 or after must have appraisal completed by Certified Appraiser
- FHA Case Number must be assigned through FHA Connection and the date of appraiser assignment must be prior to the date of the appraisal report
- Appraiser must be on FHA's Approved list on the FHA Connection
  - The FHA Connection must indicate the Appraiser has passed the Mandatory Appraiser exam
  - The assigned appraiser must perform the physical inspection of the property. The appraiser may not sign the appraisal performed by another appraiser
- Forms: URAR (Fannie Mae Form 1004) is required. However, appraisals written on the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073) or the Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) forms are also acceptable, as to applicable property types, to the Department for FHA-insured mortgages.
- Second Appraisal requirements
  - Title history reflects seller acquired the subject property between 91 to 180 days prior to the date of the purchase agreement. If the resale price has doubled (100% or more over the price paid by the seller when the property was acquired), a second independent appraisal supporting the sales price is required. The borrower may not be charged for the second appraisal.
  - The second independent appraisal must be completed by a FHA roster appraiser selected by Reunion Mortgage. The lender is not to request a second case number through FHA Connection.
- Effective for Case Numbers assigned 1/1/10 or after, the validity period for all appraisals on existing, proposed and under construction properties will be 120 days. (Mortgage Letter 2009-30)
  - This is a change from the current validity periods of six months for an appraisal of an existing property that is complete and 12 months for proposed and under construction properties.
- Effective for Case Numbers assigned 2/15/10 or after, all FHA Appraisals must be ordered through Reunion Mortgage's AMC due to Mortgagee Letter 2009-28
- Appraisals reflecting Lender Name other than Reunion Mortgage (i.e. transferred appraisals or reports ordered by the Correspondent prior to 2/15/10) **require an acceptable desk review ordered through Reunion's AMC**. The fee for this can not be passed on to the borrower.

## AUS Underwriting Decisions

- All loans (except Streamline Refinance Transactions) must be evaluated by DU and Findings provided with submission.
- Note: If the loan is ever run through Total Scorecard, it must be completely processed to the resulting findings. If a Streamline Refinance is run through Total Scorecard, the loan is no longer eligible for a Streamline and must be closed as a regular refinance.
- Loans must receive Approve/Eligible or Refer/Eligible findings.
- Approve/Eligible
  - Document loan per DU Findings with the following additional requirements:
    - Assets must be documented with at least 2 months complete bank statements regardless of DU requirements
    - Minimum credit score for all borrowers must meet guidelines
- Refer/Eligible
  - All FHA loans receiving a "Refer" recommendation require a FHA registered DE underwriter to fully underwrite the loan
  - Corporate underwriting approval is also required



- The maximum DTI ratio for FHA manually underwritten loans is 43%. This limit can be exceeded up to 50% with documented significant compensating factors as listed below. Under no circumstance may the DTI exceed 50% for manually underwritten loans.
- Compliance with all FHA requirements and all Reunion Mortgage guidelines
- Any loan receiving a "Refer" from DU must have underwriter justifications and compensating factors detailed and documented. Compensating factors that address the reason for DU Refer must be reflected on the FHA Transmittal Summary and the file must contain supporting documentation
- Effective for all mortgage loans initially scored through DU, documentation relief and credit policy revisions will only be permitted if the mortgage risk is scored by TOTAL. In order to submit a loan to FHA TOTAL Scorecard, Correspondents must complete the additional data fields in DU (FHA Lender ID and FHA Sponsor ID field, if applicable).
- The underwriter must reconcile DU output against the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU. Deficiencies that may not be within the scope of DU's analysis include delinquent rent payments, workouts, forbearance, write-offs, judgments and liens appearing on title, etc. All would render the AUS decision null and void. Underwriters need to be cognizant of these transaction structures and manually underwrite the loan.
- All conditions outlined in the DU findings report must be satisfied

## Compensating Factors

- Compensating factors that may be used to justify approval of mortgage loans with ratios exceeding our benchmark guidelines are those listed below. Underwriters must record on the "remarks" section of the HUD 92900-WS/HUD 92900-PUR the compensating factor(s) used to support loan approval. Any compensating factor used to justify mortgage approval must be supported by documentation.
  - The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
  - The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
  - The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
  - Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
  - The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
  - There is only a minimal increase in the borrower's housing expense.
  - The borrower has substantial documented cash reserves (at least three months' worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the lender must judge whether or not the asset is liquid or readily convertible to cash and can be done so absent retirement or job termination.  
NOTE: Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. "Assets" such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Similarly, funds from gifts from any source are not to be included as cash reserves.
  - The borrower has substantial nontaxable income (if no adjustment was made previously in the ratio computations).
  - The borrower has a potential for increased earnings, as indicated by job training or education in the borrower's profession.

- The home is being purchased as a result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment, is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The underwriter must document the availability of such possible employment.

## Contributions by an Interested Party

- Contributions must be used for closing cost, prepaids, and other financing costs provided the maximum contribution does not exceed 6%  
NOTE: FHA has indicated that the maximum contribution limit will be reduced to 3% later this year
- All costs including discount points and MIP must be included in 6% limit if paid by anyone other than borrower

## Credit Requirements

- A credit report must be obtained through DU
  - On Streamline Refinance transactions the credit report is not to be reissued through DU
- A valid/usable credit score is one that is generated based on a minimum of 4 trade lines rated for at least 12 months with one opened for at least 24 months.
- If there are less than 4 trade lines, or the trade lines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior—even if the report includes a credit score.
- Recent inquiries must be explained
- Each borrower must have a minimum representative FICO score of 640 (660 on FJ products). Middle of three, lowest of two for each borrower. Each borrower must have at least two valid credit scores to be eligible for FHA loan.
- The Decision Credit Score is determined for each applicant. It is the middle of three credit scores, the lower of two. If more than one borrower is on an application, the lowest Decision Credit Score is used as the final Decision Credit Score to determine MIP and pricing.
- Overall credit quality must meet FHA guidelines for acceptable credit history. Refer to HUD Handbook 4155.1 Rev 5 for guidelines
- Housing History
  - Mortgage history and/or rental history must be verified for the most recent 12 months if this information does not appear on the credit report
  - Payment shock must be addressed (increase in verified housing expense of more than 25%)
  - Landlord Rating / Rental History
    - A 12-month satisfactory landlord reference is required regardless of DU findings
    - All direct verifications must include the rental amount, payment history, and length of payment history.
    - If cancelled checks are used, copies (front & back) of twelve (12) month's consecutive (one (1) payment per month) rental payment canceled checks are required.
    - When the landlord is an interested party to the transaction (i.e., seller, broker, etc.) or a relative or employer of the Borrower, 12-months canceled checks reflecting a satisfactory payment history must be provided. In addition, a copy of the lease to verify the due date in lieu of a landlord reference must be provided.
    - Borrowers unable to document a housing history (i.e. live with family rent free or pay cash to roommate) must reflect -0- in current housing expense on their application and in DU. Payment shock must be analyzed by the underwriter.
  - Mortgage Rating:
    - Loan must be current for the month due.
    - No mortgage payment may have been 30 days or more late within the past 12 months.



- Obtain up to a 12 month or life of loan payment history via Credit Report, cancelled checks or VOM verifying payments are current with zero 30 day late payments during that period.
- All FHA Loans are subject to clear CAIVRS for each borrowers (except non-credit qualifying streamline refinances)
- All FHA Loans are subject to clear LDP and GSA (EPLS) search results for all parties to the transaction
  - All Borrowers
  - All Sellers
  - Both Realtors and their Companies
  - Escrow Officer or Closing Attorney and their Company
- Non-Purchasing Spouse in a Community Property State
  - If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply
    - A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected
      - Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.
      - Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.
    - The greater of the monthly payment amount or 5% of the outstanding balance of all debts of the non-purchasing spouse must be included in the qualifying ratios
    - Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.
    - If the debts are the sole responsibility of the non-purchasing spouse and the DTI is excessive, the DTI alone should not be considered as a basis for declining an otherwise approvable loan
    - Credit history of the non-purchasing spouse should not be the sole basis for declining the loan
    - State law dictates when certain debts can and cannot be included in the borrower's ratio
  - **List of Known Community Property States**

Arizona	Nevada
California	Texas
  - **State Specific Requirements for Community Property States**
    - Arizona**
      - The satisfaction of collections and judgments of non-purchasing spouses for FHA loans in AZ will no longer be required under the following circumstances:
        - The collection and/or judgment is dated prior to the marriage. (evidence of the marriage date must be in the file)
        - The non-purchasing spouse is not contributing towards any of the down payment or costs on the transaction (including gifts or monies from joint accounts)
        - The non-purchasing spouse signs the title disclaimer in order to prevent any judgments from attaching to the property. (Condition at closing).
        - The non-purchasing spouse cannot sign the Deed of Trust/Security Instrument.
    - California**
      - All delinquent debts including those of the non-purchasing spouse, must be satisfied prior to or at closing
      - Debts acquired prior to the marriage are counted as joint liability
    - Nevada**
      - Debts acquired prior to the marriage or acquired sole and separate are excluded from the qualifying ratios.

## Disclosure/Program Information

Program Code	Term	Caps	Floor	Margin
F15	180	n/a	n/a	n/a
FJ15	180	n/a	n/a	n/a
F30	360	n/a	n/a	n/a
F30II	360	n/a	n/a	n/a
FJ30	360	n/a	n/a	n/a
F30BD21	360	n/a	n/a	n/a
F31T	360	1/1/5	margin	2.00
FJ31T	360	1/1/5	margin	2.00

- **F15 & FJ15:** 15 year fixed rate loans
- **F30, F30II & FJ30:** 30 year fixed rate loans
- **F30BD21:** 30 year fixed rate loan with temporary interest rate buydown of 2% under Note rate the first year and 1% under the Note rate the second year. The actual cost of buydown must be paid at closing and is not included in the price reflected on the rate sheet.
- **F31T & FJ31T:** 3/1 ARM is a 30 year loan with an initial fixed interest rate for a period of 3 years, which changes to a variable rate with annual interest rate and payment adjustments thereafter. The first adjustment must occur between the 40th and 42nd payment due date.
  - The index on the 3/1 ARM is the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year or equivalent. Also known as the 1-Year Constant Maturity Index.
  - Because government loans only adjust 4 times per year loan's first adjustment will occur between the 40th and the 42nd payment due date
  - If the 1st Payment is Due...then the 1st Interest Change Date is
 

Nov, Dec, Jan	April
Feb, March, April	July
May, June, July	October
August, Sept, Oct	January
- All FHA loans are assumable and have no prepayment penalty
- All applicable HUD Disclosures must be signed

## Documentation Requirements

- Loan must be documented according to FHA guidelines.
- DU Total Scorecard –refer to AUS Underwriting section above
- Loans that receive Refer/Eligible Findings from DU must contain documentation for the compensating factors that are being used to overcome the Refer and requires corporate underwriting review

## Down Payment Assistance Programs (DAP)

- Seller Funded Downpayment Assistance Programs are not allowed.
- Subordinate financing and Gifts or Grants from Government Agencies and Non-profit agencies are considered Down Payment Assistance Programs and are not allowed.

## Eligible Borrowers

- All borrowers must have a valid Social Security Number. All loans must contain validation of the social security number:
  - Borrower signed Social Security Verification Consent Form required at submission
  - Reunion to verify all Social Security Numbers prior to closing
- All borrowers must demonstrate 2 years of employment history.



- Borrowers with less than 2 year employment may be eligible (i.e recently graduated from college or trade school). However, the loan would require manual underwriting
- In order to be eligible for an FHA loan, borrowers may not take an ownership interest in the property at the time of settlement without signing the mortgage note and all security instruments.
- **U.S. Citizens**
- **Permanent Resident Aliens**
  - Proof of citizenship and immigration status now requires (in addition to a Social Security Number) evidence of lawful permanent residency as issued by the Bureau of Citizenship and Immigration Services within the Department of Homeland Security. Provide copy of INS Card or other INS documents verifying lawful permanent residence.
  - Other requirements include an employment authorization document issued by the BCIS, along with detailed instructions verifying that there have been neither prior renewals nor likelihood of renewal.
  - Non-US citizens without lawful residency in the US are not eligible for FHA loans.
- **Non-Occupying Co-Borrower**
  - The co-borrower cannot be the seller, builder, real estate agent, etc.
  - Loans involving non-occupant co-borrowers are subject to the following restrictions
    - One unit property if the LTV exceeds 75%
    - Co-borrower must be a close family member or have a long-standing relationship with the borrower
      - If the co-borrower is unrelated or does not have a long-standing relationship with the borrower, the maximum LTV is 75%
      - If a parent is selling to a child, the parent cannot also be the co-borrower with the child unless the new mortgage LTV is 75% or less
  - Income, assets and debts from all borrowers are used in qualifying
  - Co-borrower must have a principal residence in the US
  - Refer to HUD Handbook 4155.1 Rev 5 for details
- **Non –Permanent Resident Alien**
  - Borrower must be eligible to work in the U.S.
  - Evidence of valid Social Security number required
  - Evidence of residency and work status to be obtained through documentation from US Bureau of Citizenship and Immigration Services (BCIS) formerly INS
    - **Copy of the Employment Authorization Card, I-688B.** This card carries an expiration date.
    - A social security card is not acceptable as evidence of work status
- **Power of Attorney**
  - Only specific Powers of Attorney are acceptable. If only one borrower on transaction a POA would not be allowed. If multiple borrowers at least one borrower, not a POA, must sign the loan docs.
  - When using a Power of Attorney the borrower must have signed the initial application and disclosures.
  - Title Policy must insure over its use.
- **Revocable Trusts**
  - Allowed per FHA and Reunion guidelines

## Escrow Waivers

- FHA loans may not waive escrow – Impound account is required for Hazard Insurance, Taxes and Monthly MIP

## Ineligible Loan Types

- FHA Secure
- FHA HOPE – H4H
- HECM – Reverse mortgage
- EEM (loans used to finance Energy Efficient Mortgage upgrades)
- Loans approved with LP Findings
- Graduated Payment Mortgages
- Growing Equity Mortgages
- Loans to non-profit organizations
- Loans with private water purification systems requiring an escrow for maintenance
- Any program which impairs the lender’s right to complete collection or foreclosure proceedings.
- Loans other than the 203(b) Basic and 234(c) Condominiums that have ADP codes other than what is listed above.
- Construction to permanent loans with modifications.
- Non-occupying co-borrowers on multi-unit dwellings (2-4 units)
- Properties currently listed for sale are not eligible for refinance
- Texas Section 50(a)(6) transactions
- \$100 down payment program

## Insuring Certificate (MIC)

- Loans that are unable to be insured (due to program violations, etc.) must be repurchased. If the Correspondent is notified of an uninsurable loan, they must forward any pertinent information to Reunion Mortgage along with copies of any correspondence received from HUD regarding the deficiency.

## Minimum/Maximum Loan Amount

- Minimum Loan Amount \$50,000
- Maximum Base Loan Amount cannot exceed statutory limit for each county. File must contain the print-out of HUD Loan Limit for the county from <https://entp.hud.gov/idapp/fhagov/hicostlook.cfm> (except Streamline refinance without an appraisal)
- Refer to Transaction Type for maximum loan amount calculations

### Base Loan Amounts for F15, F30, F30II, F31T and F30BD21

Continental US	Minimum	Maximum
1 unit	\$50,000	\$417,000
2 unit	\$50,000	\$533,850
3 unit	\$50,000	\$645,300
4 unit	\$50,000	\$801,950

Hawaii	Minimum	Maximum
1 unit	\$50,000	\$625,500
2 unit	\$50,000	\$800,775
3 unit	\$50,000	\$967,950
4 unit	\$50,000	\$1,000,000

**Base Loan Amounts for FJ15, FJ30, FJ31T**

Continental US	Minimum	Maximum
1 unit	\$417,001	\$729,750
2 unit	\$533,851	\$934,200
3 unit	\$645,301	\$1,000,000*
4 unit	\$801,951	\$1,000,000*

Hawaii	Minimum	Maximum
1 unit	\$625,501	\$1,000,000*
2 unit	\$800,776	\$1,000,000*
3 unit	\$967,951	\$1,000,000*
4 unit	n/a	n/a

\* \$1,000,000 maximum includes UFMIP.

## Mortgage Insurance Premium

- **FHA Case Assignments 4/5/10 or after**
  - UFMIP is 2.25 for all transactions including Streamline Refinance.
  - Monthly remains as reflected in the table below
- **FHA Case Assignment 10/1/08 through 4/4/10**

**UFMIP**

Full Doc	1.75
Streamline	1.50

**Monthly all transactions**

30 Year		15 Year	
LTV	Monthly	LTV	Monthly
≤ 95	.50	≤ 90	None
> 95	.55	> 90	.25

Years for monthly MIP are determined when the loan balance equals 78%, provided the borrower has paid the annual MIP for at least 5 years (scheduled or actual).

- **FHA Case Assignment 7/14/08 through 9/30/08 require Risk-Based Pricing**  
Refer to Mortgagee Letter 2008-16

## Occupancy

- Owner occupied only (including Streamline Refinance transactions)

## Ownership History (Minimum 24 months)

- All files must contain a 24-month title history provided by an acceptable source, as well as all required documentation to satisfactorily verify ownership:
  - Acceptable Sources
    - Preliminary Title Commitments
    - Copies of recorded title-transfer deeds



- Credit report mortgage histories and HUD-1's showing transfers of ownership in the last 24 months
- Unacceptable Sources
  - Appraisal
- Scenarios: If purchased less than 24 months, and the value increase is substantial or the reason for value increase is not supported by documented improvements – the original transfer value will be used.
- Refer to HUD Resale restrictions for properties that have a transfer in the last 6 months.

## Property

- **Eligible**
  - Single Family Residence
  - 2-4 unit dwellings
  - PUD's (attached or detached)
  - Condos – FHA Approved
- **Ineligible**
  - Manufactured/Mobile Homes
  - Properties that do not meet HUD's Minimum Property Standards
  - Property with health, safety, and/or livability issues (e.g., non-functioning bathrooms or kitchens, no utilities, mud slide areas, etc.)
  - Properties in less than average condition
  - Properties that are not residential in nature and use (i.e.: farms, orchards, commercial properties, etc)
  - Properties with private water purification systems requiring an escrow for maintenance
  - Properties currently listed for sale not eligible for refinance
- **Recently Listed for Sale**
  - **Rate and term:** the listing agreement must be cancelled at least one day prior to the loan application.
  - **Cash-out:** the listing agreement must be cancelled six months prior to the application date or the loan is subject to a max 70% LTV (the listing agreement must be cancelled at least one day prior to the loan application.)
- **New Construction**
  - Proposed or Under Construction (property is not complete at time of appraisal) or New Construction (property is complete at time of appraisal, but completed less than one year prior to borrower signing application). The lender must provide the appraiser with these documents when requesting the appraisal:
    - Builder's plans, specifications and construction documents – NOTE: Not required to be included in loan file. Builder can provide directly to appraiser.
    - Completed Builder's Certification (Form HUD-92541)
    - Builder's Warranty (Form HUD-92544)
    - Builder's 10-year Warranty – or – Building Permit and Certificate of Occupancy – or – Early Start Letter and all 3 HUD inspections
    - All reports and information available (i.e., sales agreement, title report, environmental assessments or studies and inspection reports)
- **Condominium**
  - **FHA Approval Required**
    - Condo Project Approval printed from FHA Connection is required
    - All conditions listed on approval must be documented
    - 51% Owner Occupancy must be verified with a completed HOA Certification
    - The DE Underwriter is required to sign the Lender Certification to Condominium Requirements form for each Condominium loan



- No more than 15% of the units within the project can be more than one month delinquent on Homeowners Association fees, dues or assessment payments  
NOTE: Reunion Mortgage does not participate in DELRAP (Direct Endorsement Lender Review and Approval Process)
- Site Condos do not require condominium project approval – NOTE: Property must be completely detached from any other structure to be considered a Site Condo
- **Spot Approvals** are not allowed
- **HUD Repossessed Properties**
  - HUD sales of repossessed properties are acceptable as long as they are owner-occupied and adhere to regular FHA underwriting standards. Loans on HUD repossessed properties purchased by investors are not eligible.
  - As with all loans, HUD repossessed properties must meet minimum property condition requirements per Reunion’s General Underwriting Guidelines
  - A new appraisal is not required unless one or more of the following applies:
    - A copy of the appraisal was ordered from the “Marketing and Management (M&M) contractor” but the M&M contractor is unable to provide the report.
    - The current “as is” appraisal is over 120 days old and a valid HUD contract was not executed prior to the expiration date of the appraisal (In instances where the “as is” appraisal is more than 120 days old and a valid HUD sales contract was executed prior to the expiration date of the appraisal, the current “as is” appraisal should be used)  
NOTE: Appraisals dated prior to April 1, 2010 have 6 month expiration
    - The current “as is” appraisal is over 120 days old and the purchasers have not already been approved for the loan
  - REO Second Appraisals to Support a Higher Purchase Price
    - 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 to support a higher purchase price due to bidding that is higher than the value indicated on the current HUD REO appraisal.
    - A second appraisal can only be ordered to support a higher sales price if there is material defectiveness with the current HUD REO appraisal or the current appraisal will not be valid on the date of contract ratification.
- **HUD Resale Restrictions**
  - The following information is provided in order to highlight the Property Flipping guidelines as provided by HUD. Please refer to HUD Guidelines for the complete, detailed HUD Property Flipping policy (Mortgagee Letter 2003-07).
  - For all mortgage applications where the home seller has acquired the property less than six months before the purchase agreement was executed, the following rules apply:
    - **For resales within 90 days or less:** The property is not eligible for a mortgage insured by FHA.
    - **For resales occurring between 91 to 180 days:** If the resale price has doubled (100% or more over the price paid by the seller when the property was acquired), a second independent appraisal supporting the sales price is required. The borrower may not be charged for the second appraisal.
    - **For resales after 6 months:** The loan is not subject to the anti-flipping rule and is eligible for an FHA insured mortgage.
  - **Exceptions:** The re-sale restrictions do not apply to properties acquired by an employer or relocation agency in connection with the relocation of an employee, all Federal Agency acquired properties that are quickly marketed and sold such as HUD Repossessions being sold by HUD) or sales of inherited properties. For additional clarification, please refer to HUD Mortgagee Handbook 4000.2 Rev-3.



- Per News Release issued on June 13, 2008 FHA will insure foreclosed properties marketed and sold by property disposition firms on behalf of lender and will no longer be subject to the 90-day waiting period. All other re-sales are still subject to the rules as listed above. Individuals that intend to occupy as their primary residence must purchase the subject property. This is a temporary policy and is only in effect until June 13, 2009. The temporary property flipping waiver has been extended and FHA will recognize sales agreements on foreclosed properties signed by the seller and buyer on or before May 10, 2010.
- **NOTE:** Reunion Mortgage requires a minimum of 90 days from the date of seller acquisition to sales contract. Reunion Mortgage does not recognize the waiver to the 90 day flipping rule.
  - Per News Release issued on January 15, 2010 FHA will insure properties if the contract of sale for the purchase of the property is executed within 90 days of the prior acquisition by the seller and the seller does not come under any of the specific exemptions that apply to the 90-day rule.
- **Disaster Area Policy**
  - Refer to Disaster Policy Matrix for procedures and current Declared Disaster Areas.
- **Repair Requirements**
  - All repairs and conditions indicated on Conditional Commitment must be completed
  - Satisfaction of repair requirements must be documented
    - **Appraisal Completion Report (Fannie Mae Form 1004D)** Part B to be completed by original FHA Appraiser
    - **Compliance Inspection Report (Form HUD-92051).** A Compliance Inspection Report, prepared by an appraiser or inspector is required for new construction and loans with Case Assignment date prior to 1/1/2010.
- **Termite Inspections**
  - If required, a termite (pest) inspection report must be provided, which indicates the subject property, has been inspected and found to be free of active infestation from termites and other insects. If property damage is observed, any repairs required must be satisfactorily completed and evidence documenting the repairs must be provided.

## Ratios

- **DTI**
  - Approve/Eligible
    - Fully Amortized: no maximum – Ratios evaluated by DU
    - Temporary Buydown: 31/43 and Qualify at Note Rate
  - Refer/Eligible – maximum of 31/43
    - The maximum DTI ratio for FHA manually underwritten loans is 43%. This limit can be exceeded up to 50% with documented significant compensating factors as listed above. Under no circumstance may the DTI exceed 50% for manually underwritten loans.
    - Temporary Buydown: 31/43 and Qualify at Note Rate (ratios can not be exceeded regardless of compensating factors)
- **Maximum LTV**
  - The total loan amount (including UFMP) can not exceed 100% LTV on all transactions except Streamline without appraisal
  - Purchase: 96.5%
  - Rate/Term Refinance (including Streamline with appraisal): 97.75%
  - Streamline without appraisal: 100% of the Original Appraised Value listed on the Refinance Authorization from FHA Connection
  - Refer to Transactions Section for maximum loan amount calculations

## Subordinate Financing

- **Purchase Money Second**
  - Borrower must contribute 3.5% of their own funds into the transaction when gift, grant or subordinate financing is used (except from a family member)
  - The borrower may receive secondary financing to cover the remaining cash investment requirement from the following sources
    - Federal, state or local governmental agencies – must be RMI Approved
    - FHA Approved Non-Profit agencies that are considered instrumentalities of government - **must be RMI Approved**
    - Borrower may also receive secondary financing from FHA Approved non-profit agencies NOT considered instrumentalities of government provided the borrower makes a cash investment of at least 3.5% of the sales price
    - Other organizations and private individuals may provide secondary financing provided the combined amounts of the 1st and 2nd liens do not exceed the applicable LTV ratio and the statutory mortgage limit for the area
    - Secondary financing funds may be provided by a family member
      - Parent, grandparent, child
      - 100% of funds for down payment, closing costs, prepaid expenses and discount points may be from a secured or unsecured loan from a family member
  - The interest rate on the second mortgage may not exceed the interest rate on the 1st mortgage
  - Refer to HUD Handbook 4155.1 Rev 5 Section 1-13
- **Refinance Transactions**
  - Cash-Out Refinance
    - New subordinate financing is not allowed
    - May subordinate existing junior liens provided the CLTV does not exceed 85%
  - Rate/Term Refinance
    - New secondary financing is not permitted
    - May subordinate existing junior liens provided the CLTV does not exceed 100%
    - Payoff of subordinate financing: One year seasoning on junior liens unless documentation is provided to verify junior lien incurred for home improvement of the subject property
  - Streamline Refinance
    - New subordinate financing is not permitted
    - May subordinate existing junior liens provided the CLTV does not exceed 100%

## Temporary Buydowns

- Program Codes: **F30BD21**
  - The 2/1 buy down allows a purchaser to reduce the initial interest rate on their mortgage by 2% the first year, 1% the next year, and 0% every year thereafter.
- The actual cost of the buy down is a separate fee and not included in the price
  - Buydown funds may come from the seller, lender, borrower or other party. Funds from the seller or any other interested third party are considered interested party contributions and must be included in the limit on interested party contributions.
- One Unit Purchase transactions only
- DU Approve/Eligible required
- Maximum DTI: 31/43 regardless of DU approval
- Borrower to be qualified on the note rate payment



## Transaction Type

- FHA Maximum Loan Amount Calculation worksheet must be completed on all transactions
- **Purchase**
  - Maximum LTV is 96.5% using the Base Loan Amount and 100% LTV using the Total Loan Amount including UFMIP.
    - Borrower must contribute 3.5% into the transaction.
    - NOTE: Some transactions have additional calculations due to restrictions for maximum loan amounts. Refer to HUD 4155.1 REV5 for complete requirements.
      - Identity of Interest
      - Non-occupying Co-Borrowers
      - Three and Four-Unit Properties
      - Properties Under Construction or Existing Construction Less than One Year Old
- **Cash-out refinance**
  - Maximum LTV/CLTV is 85%
  - No seasoning on first mortgage or junior liens
  - No restriction on length of ownership or seasoning of mortgage payments. **Except:** If the property was acquired less than one year prior to the date of Loan Application, the maximum loan amount must be calculated using the lesser of the appraised value **or** the original sales price.
    - Obtain a copy of the Deed to verify date of ownership
    - Obtain a copy of the HUD-1 to verify original sales price
  - Closing costs, prepaid expenses and discount points may not be added to the appraised value or sales price to calculate the new maximum loan amount.
  - FHA to FHA refinance – Refinance Authorization Information must be obtained directly from FHA Connection
  - Borrowers may be deleted
  - Adding Co-borrowers
    - All borrowers **must occupy** subject property
    - May add a co-borrower. However the **original** borrower / property owner must be in title for a minimum of 12 months and must also be on the original note and mortgage. **There are no exceptions.**
  - Non-Occupying Co-borrowers
    - Permitted only if the non-occupant co-borrower has been in title and on the mortgage note as a non-occupant co-borrower since the original financing of the FHA purchase mortgage
    - No non-profit organizations
  - Subordinate financing
    - New subordinate financing is not allowed
    - May subordinate existing junior liens provided the CLTV does not exceed 85%
  - Not permitted in Texas
- **Rate and Term refinance**
  - Delinquent interest may not be included in the loan amount. New Mortgage Calculations: FHA does not allow the inclusion of "skipped" mortgage payments when calculating a new mortgage amount. As an example, a borrower whose mortgage payment is due June 1 is not permitted to roll the June mortgage payment into the new FHA loan amount.
  - New secondary financing is **not** permitted
  - May subordinate existing junior liens to maximum of 95% CLTV
  - The following guidelines pertain to rate/term refinances for properties located in Texas
    - Owner occupied properties only
    - If the first mortgage is subject to Texas Section 50(a)(6), FHA insured financing is not permitted. The loan is restricted to the Texas Refinance Product (conventional financing only)



- If an existing second lien is subject to Texas Section 50(a)(6), the second lien may be subordinated and considered a rate and term refinance. A Subordination Agreement must be executed
- If a Texas Section 50(a)(6) second lien is being paid off, FHA insured financing is not permitted. The loan is restricted to the Texas Refinance product (conventional financing)
- FHA to FHA refinance – Refinance Netting Authorization Information must be obtained directly from FHA Connection
- **The new mortgage amount is the lesser of the following two calculations (Calculation 1 and Calculation 2)**
  - Calculation 1**
    - Multiply Appraised Value (**excluding any closing costs**) by 97.75%
      - Use lesser of Appraised Value or Original Sales Price if property is owned less than 1 year prior to loan application & loan is not FHA insured
  - Calculation 2**
    - Unpaid Principal Balance
    - **Minus** UFMIP Refund if applicable
    - **Plus** per diem interest on old loan  
NOTE: This can not include interest from the prior month as FHA considers this delinquent interest)
    - **Plus** allowable borrower paid closing costs
    - **Plus** reasonable discount points
    - **Plus** prepayment penalties
    - **Plus** satisfaction of junior liens seasoned at least 1 year from funding, or used for the initial purchase of the subject property
      - Regardless of the age of a HELOC, if draws in excess of \$1000 were advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property, the line of credit is not eligible for inclusion in the new mortgage.
    - **Plus** repairs required by the appraiser, if any
    - **Plus** accrued late charges
    - **Plus** escrow shortages
    - **Plus** prepaid expenses
      - Per diem interest on the new loan to the end of the month
      - Hazard insurance premium deposits needed to establish escrow account
      - Real estate tax deposits needed to establish escrow account
- **Streamline Refinance**
  - Regardless of FHA Case Assignment date, the following guidelines apply to all Streamline Refinance Transactions
  - Seasoning Requirement: At time of loan application, the borrower must have made at least 6 payments on the FHA-insured mortgage being refinanced.
  - Certifications and Verifications
    - When submitting the loan for insurance endorsement, the lender must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of loan application.
    - If assets are needed to close, the lender must verify and document those assets.
    - The lenders must also include the pay-off statement in the case binder.
  - Refer to the following table for specific documentation requirements based on income type:

Income Type	Documentation Requirements
Salaried /W-2 Wage Earner	Verbal VOE
Self-Employment Income	Verification of self-employed applicant's business
If the completed loan application indicates income is from an <b>"other income"</b> source, documentation supporting the source of the income is required in the loan file. Refer to the list below for some examples of acceptable documentation. The Direct Endorsement (DE) Underwriter may accept documentation not listed below provided it identifies the source of the other income as well as supports the Lender Certification that the DE Underwriter is required to sign and date.	
Other Income Types (not an all-inclusive list of acceptable income types)	Examples of Acceptable Documentation
Alimony/Separate Maintenance	Copy of divorce decree/settlement agreement or court payment record
Annuity	Most current institutional statement
Child Support	Copy of divorce decree/settlement agreement or court payment record
Interest/Dividend Income	Document showing ownership of interest bearing account or copy of current statement showing interest income
IRA/Keogh	Most current bank statement or letter from administrator
Note Income	Copy of Note or most current statement
Pension/Retirement	Most current bank statement or benefit award letter or most current W-2/1099
Rental Income	Copy of current lease
Social Security Retirement/Survivor's/Disability Income	Award letter or most current deposit statement
Trust Income	Copy of trust agreement or trustee's statement
VA Benefits	Award letter or most current deposit statement

- Uniform Residential Loan Application (URLA)
  - Mortgagees may no longer use an abbreviated version of the URLA. Due to various disclosure requirements and our long-standing belief that borrowers are best served when certifications they must make are divulged as early as possible in the loan application process, the application for mortgage insurance must be signed and dated by the borrower(s) before the loan is underwritten. Mortgagees are permitted to process and underwrite the loan after the borrowers and interviewer complete the initial URLA and initial form HUD-92900A, HUD/VA Addendume to Uniform Residential Loan Application.
- **TOTAL Scorecard:** Lenders should not use TOTAL on streamline refinance transactions. If a lender uses TOTAL the loan is not eligible for Streamline refinance and must be underwritten and closed as a rate and term (no cash-out) refinance transaction.
- Payoff of existing **Endorsed** FHA first mortgage
- Refinance Authorization information must be obtained directly from FHA Connection and a copy included in the loan file
- Loan must be current at closing as evidenced by payoff demand
- Delinquent interest may not be included in the loan amount. New Mortgage Calculations: FHA does not allow the inclusion of "skipped" mortgage payments when calculating a new mortgage

amount. As an example, a borrower whose mortgage payment is due June 1 is not permitted to roll the June mortgage payment into the new FHA loan amount.

- Mortgage Rating
  - 0 x 30 during the previous 12 months or life of loan if property is owned less than 12 months
  - It may be necessary to verify the current and previous mortgage to establish a 12 month mortgage payment history.
- Reunion offers two variations of non-credit qualifying Streamline Refinance (Credit Qualifying refinances must be process and closed as Regular Rate/Term Refinance)
  - Without Appraisal - Doc Type: STREAM NO APPR
  - With Appraisal - Doc Type: STREAM APPR
- Net Tangible Benefit (Effective with Case Assignments 11/17/09 – Mortgagee Letter 2009-32)
 

The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. Net tangible benefit is defined as:

  - reduction in the total mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens),
  - refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage, OR
  - reducing the term of the mortgage.
  - Reduction in Total Mortgage Payment: The new total mortgage payment is 5 percent lower than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is \$895; the total mortgage payment for the new FHA-insured mortgage must be \$850 or less.
    - This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).
  - Fixed Rate to ARM: Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage
  - ARM to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20%. Example: Total mortgage payment on the hybrid ARM is \$895; the total mortgage payment for the new fixed rate mortgage must be \$1,074 or less.
  - Reduction in Term: For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction. Refinance transactions that reduce the term are no longer eligible for Streamline Refinance
- New subordinate financing is not permitted
- May subordinate existing junior liens to maximum 100% CLTV
- No cash back to borrower permitted (incidental minor adjustment at closing **not exceeding \$500** cash back is acceptable. Texas properties can not have any cash back.)
- Deletion of Mortgagor: Deletion of a borrower must be processed as a Credit Qualifying Refinance unless **one** of the following exists:
  - The loan was legally assumed more than six months ago and the remaining borrower can document that he/she has made the mortgage payments solely during that time (6 months cancelled checks and copy of Quit Claim Deed)
  - or
  - The property was transferred as a result of a divorce decree and the assumption or quit claim of interest occurred more than six months previously and the remaining owner-



- occupant can demonstrate that he/ she has made the mortgage payments during this time (6 months cancelled checks, divorce/settlement agreement)
- NOTE: Checks drawn from joint accounts involving the deleted borrower are not acceptable
  - Adding Borrowers to Title: New individuals may be added to title on Streamline refinances without Credit Qualifying and without triggering "due on sale" clause.
  - Copy of Note from existing FHA loan is required to verify Date of Not, FHA Case Number, interest rate, P&I and loan term. Also to verify that borrowers and property address are the same on current loan and on new loan application.
  - Full credit report is required and all borrowers must meet minimum 640 credit score (660 if Base loan amount is greater than \$417,000) and the minimum tradeline requirements
  - **Streamline Refinance Without an Appraisal**
    - The following Streamline Refinance transactions must be completed without an appraisal:
      - Unit in a condo project that is withdrawn from FHA's approved list
      - Unit in a condo project that no longer meets the 51% owner occupancy requirement
    - The term of the new mortgage is the lesser of 30 years or the un-expired term of the current mortgage plus 12 years.
    - The maximum insurable mortgage cannot exceed:
      - The outstanding principal balance
        - The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.  
**Minus** the applicable refund of the UFMIP,  
**Plus** The new UFMIP that will be charged on the refinance.
      - FHA Statutory Limit for the County
  - **Streamline Refinance With an Appraisal**
    - Appraisal Requirements:
      - All appraisals must pass Reunion Mortgage appraisal review process
      - Inform the appraiser that the loan is a streamline refinance
      - No termite certification is required unless appraiser notes a problem
      - If an appraisal is ordered but the borrower decides to proceed with a streamline without an appraisal, the appraisal may be voided
        - If this is done, the case type in the FHA Connection **must be changed** to reflect that the case number is a streamline refinance without an appraisal
        - DE Underwriter must make a notation on the MCAW indicating that it was in the borrower's best interest to proceed without an appraisal
    - The maximum insurable mortgage cannot exceed the lesser of:
      - Outstanding principal balance  
**Minus** UFMIP refund if applicable
        - The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.  
**Plus** allowable borrower paid closing costs  
**Plus** prepaid items to establish the escrow account  
**Plus** the new UFMIP
      - 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance.
      - FHA Statutory Limit for the County
      - NOTE: Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.



## Underwriting

- FHA loans must be underwritten by a Reunion Mortgage DE Underwriter
- Loans must receive DU Findings of Approve/Eligible or Refer/Eligible. Note: Non-Credit Qualifying Streamline Refinance Transactions do not require DU Findings
- Refer/Eligible loans must include compensating factors listed on the FHA Transmittal that address the reason for the Refer and supporting documentation is required in the file
- Refer/Eligible loans require corporate underwriting approval
- Underwriting HUD Employee Loans
  - If the applicant is an employee of HUD or a member of a HUD-employees household (spouse, parent or child), the application must be submitted to the Homeownership Center for prior approval processing
    - This does not apply to Non-Credit Qualifying Streamline Refinances