

FHA Fixed and ARM Product Guidelines

PRODUCT CODES: F15, F30, F30II, FJ15, FJ30, F31T, FJ31t

Overview

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 or <http://portal.hud.gov>. All loans delivered to Reunion must be in compliance with published FHA guidelines. If an issue is not addressed in these guidelines refer to Reunion General Underwriting Guidelines. In the event the General Underwriting Guidelines require different parameters than those stated within these guidelines, the more conservative guideline will apply. Loans that do not receive DU "Approve/Eligible" or LP "Accept" findings require second level review.

Table of Contents

Appraisals	2
Assets	4
AUS Underwriting Decisions.....	5
Compensating Factors	6
Contributions by an Interested Party	7
Credit Analysis.....	7
Disclosure/Program Information	10
Documentation Requirements	10
Down Payment Assistance Programs (DAP).....	11
Eligible Borrowers ⁹	11
Escrow Waivers.....	12
Income	12
Ineligible Loan Types	16
Insuring Certificate (MIC)	16
Minimum/Maximum Loan Amount.....	16
Mortgage Insurance Premium	17
Occupancy.....	17
Ownership History (Minimum 24 months)	18
Property	18
Qualifying Payment	21
Ratios	21
Subordinate Financing	21
Transaction Type.....	22
Underwriting	24

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
- F31T 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)/251	729	ARM
234(c)	734	Fixed Rate Condominium
234(c)/251	731	ARM Condominium

F15, F30, F30II, F31T

Purpose	Units	LTV ¹	FICO
Purchase	1-4	96.5	640
R/T	1-4	97.75	640
C/O	1-4	85	640

¹Total loan amount including UFMIP is limited to 100% LTV
 Note: The LTV is calculated on the Base Loan Amount.

FJ15, FJ30

Purpose	Units	LTV ¹	FICO
Purchase	1-4	96.5	660
R/T	1-4	97.75	660
C/O	1-4	85	660

¹Total loan amount including UFMIP is limited to 100% LTV
 Note: The LTV is calculated on the Base Loan Amount.

Appraisals

- 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
- 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's AMC. The lender is not to request a second case number through FHA Connection.
- All appraisals on existing, proposed and under construction properties are valid for 120 days.
 - FHA has adopted the Appraisal Update and/or Completion Report Form (Fannie Mae Form 1004D) to extend the validity period for the original appraisal report when certain conditions are met.
 - The Appraisal Update Report may only be used one time to extend the validity period of the original appraisal report.

- The Appraisal Update Report must be ordered and performed prior to the expiration date of the original appraisal report (120 days from the date of the original appraisal).
- The FHA appraiser who performed the original appraisal must perform the appraisal update.
- The appraiser must use the Market Conditions Addendum (Fannie Mae Form 1004MC) to document that the property has not declined in value.
- The appraiser must be able to observe from the street or a public way the subject property's improvements.
- An exterior inspection of the property must not indicate any significant changes or deficiencies that were not observed at the time of the original appraisal report's effective date.
- If the original appraisal report was transferred to a new lender, the appraiser must attach the original appraisal report to the Appraisal Update Report instead of referencing the original report. This is a Uniform Standards of Professional Appraisal Practice (USPAP) requirement.
- When the Appraisal Update Report is used to extend the validity period of the original report, the FHA loan must close within 240 days from the effective date of the original appraisal report being updated.
- **Transferred Appraisals**
 - Transferred appraisals require an Underwriter Exception.
 - An FHA Connection printout showing the following information is required:
 - Case assignment reflecting another lender at time of appraisal order and completion
 - Appraiser Assignment prior to submit date
 - Case Transfer to Reunion as Lender
 - Appraisal must be emailed to Reunion's Appraisal Department (appraisals@reunionmortgage.com) directly from the other lender and must include a cover letter that represents and warrants that the appraisal was completed in compliance with Appraisal Independence (ML 2009-28) and the appraisal is transferred to Reunion (letter must be signed by a company officer)
 - Appraisal can NOT be completed in the name of the Broker
 - An acceptable desk review ordered from Reunion's AMC is required
 - If the transferred appraisal does not meet Reunion requirements for comparable selection and quality, or if the desk review is not acceptable, a new appraisal ordered through Reunion's AMC is required
- **HUD Real Estate Owned (REO) Appraisals**
 - HUD obtains an appraisal to establish a list price for REO properties that are marketed for sale. If the buyer of the REO property is financing the purchase with an FHA loan, the lender must use the HUD appraisal as long as it is valid.
 - The validity period for appraisals performed on or after April 1, 2010 has been reduced from 6 months to 120 days.
 - If a contract of sale is not ratified within 120 days of the appraisal, the lender must order a new appraisal or an appraisal update.
 - The appraisal update must be performed by the original appraiser.
 - The appraiser must make an exterior inspection of the subject property.
 - The appraiser must certify that the property has not declined in value based on research and analysis of current market data.
 - The appraiser must take pictures of the exterior of the property and certify that the property inspection does not reveal any deficiencies or significant changes since the original inspection.
 - A second appraisal may not be ordered unless it is no longer valid as of the date the contract of sale was ratified or if there are material deficiencies with the current appraisal.
 - The Direct Endorsement (DE) underwriter is responsible for determining if there are material deficiencies.
 - If a second appraisal is ordered, the DE underwriter must document the deficiencies and both appraisals must be retained in the case binder.

- See *General Underwriting Guidelines* for complete guidelines on Property/Appraisal

Assets

▪ **Gifts**

- The Borrower may use funds obtained as a gift from an individual with whom they have an established relationship to satisfy the Borrower's required investment.
 - A Gift Letter providing the following must be included in the Loan file, regardless of TOTAL scorecard findings waiving a gift letter:
 - The amount of the gift
 - The donor's name, address and telephone number
 - The donor's relationship to the borrower
 - Signatures of all parties
 - Acceptable Donors
 - Relatives of the borrower
 - Borrower's employer or labor union
 - Close friend with a clearly defined interest in the Borrower
 - Unacceptable Donors
 - Any person with a financial interest in the transaction
 - the seller (see Gift of Equity for eligible seller gifts)
 - realtor
 - builder
 - loan officer
 - These parties may never provide a gift, directly or indirectly. A gift from any of these sources would be considered an inducement to purchase and would require a reduction to the sales price.
 - Source of Gift funds must be verified with a copy of the donor's cancelled check or other withdrawal documentation from the donor's account, including donor name and account number
 - If the donor borrowed the gift funds, documentation must be provided by the bank verifying the source of were financed with a bank loan. If the bank cannot provide verification of the loan, other evidence must be provided that the funds were borrowed from an acceptable source.
 - Unacceptable sources of donor's borrowed funds
 - Any party to the transaction, including the lender
 - Cash received from any source
 - A loan in which the Borrower is a co-obligor with the donor for the borrowed gift funds
 - Transfer of Gift funds
 - A copy of the borrower's deposit slip verifying the deposit and the updated balance information or a bank statement showing the gift deposit is required. ATM receipts are never acceptable documentation to show transfer of the gift funds from the donor
 - If the gift funds were deposited into escrow document the transfer of funds from the donor to the borrower with the following:
 - Copy of donor's withdrawal slip and either a bank statement or a letter from the banking institution verifying the withdrawal of the funds from the donor's account
 - Copy of the Certified check to escrow and copy of the escrow deposit receipt
- **Gift of Equity**
- Borrowers may receive a gift of equity from the seller, provided the seller is an immediate family member (parent, grandparent, brother or sister). The gift will be reflected as a credit on the HUD1 Uniform Settlement Statement and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution.
 - The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The sales agreement should refer to the gift of equity as part of the transaction. The HUD-1 Uniform Settlement Statement will satisfy the donor's ability and receipt of gift verification.

- See General Underwriting Guidelines for complete guidelines on Assets

AUS Underwriting Decisions

- All loans must be decisioned through FHA TOTAL Scorecard by DU or LP and Findings provided with submission.
- Loans must receive: Approve/Eligible, Refer/Eligible, Accept, or Caution findings.
- Approve/Eligible or Accept
 - Document loan per DU or LP Findings with the following additional requirements:
 - Assets must be documented with at least 2 months complete bank statements regardless of the requirements on the AUS findings
 - Minimum credit score for all borrowers must meet guidelines
 - Manual Downgrades (Approve to Refer, or Accept to Caution)
 - A manual downgrade from an Approve or Accept decision to a Refer/Caution decision is required if additional information, not already considered by automated underwriting, affects the overall insurability or eligibility of the mortgage.
 - The list below includes but is not limited to the events that will require the Direct Endorsement Underwriter to manually downgrade a recommendation from an Approve or Accept decision to a Refer/Caution and further ensure that the loan meets FHA requirements:
 - Inaccurate credit reporting
 - Derogatory or delinquent credit items that are not reflected on the credit report such as bankruptcy, foreclosure, collection account, charge-off, tax lien or judgment
 - Disputed credit accounts or public records reflected on the credit report
 - A manual downgrade of the TOTAL Scorecard Accept/Approve findings is not required for disputed accounts listed on the credit report if the disputed account meets one of the following conditions:
 - The disputed account has a zero balance
 - The disputed account is marked as “paid in full” or “resolved”
 - The disputed account is both:
 - Less than \$ 500., and
 - More than 24 months old
 - Evidence that disputed accounts meet the above conditions must be documented by a credit report supplement or documentation directly from creditor.
 - Eligibility issues or other reasons that prevented automated underwriting or Total Mortgage Scorecard from recognizing a derogatory credit variable, such as those described in the System Overrides and Manual Downgrade section of the TOTAL Mortgage Scorecard User's Guide.
- Refer/Eligible or Caution
 - All FHA loans receiving a “Refer” or “Caution” 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 guidelines
 - Any loan receiving a “Refer” or “Caution” from the agency AUS system must have underwriter justifications and compensating factors detailed and documented. Compensating factors that address the reason for Refer or Caution must be reflected on the FHA Transmittal Summary and the file must contain supporting documentation
- Effective for all mortgage loans initially scored through an agency AUS system, documentation relief and credit policy revisions will only be permitted if the mortgage risk is scored by TOTAL Scorecard. In order to submit a loan to FHA TOTAL Scorecard,

Correspondents must complete the additional data fields in the agency AUS system (FHA Lender ID and FHA Sponsor ID field, if applicable).

- The underwriter must reconcile the DU or LP 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 TOTAL Scorecard. Deficiencies that may not be within the scope of TOTAL Scorecard analysis include delinquent rent payments, workouts, forbearance, write-offs, judgments and liens appearing on title, etc. All would render the TOTAL Scorecard decision null and void. Underwriters need to be cognizant of these transaction structures and manually underwrite the loan.
- All conditions outlined in the DU or LP findings must be satisfied
- Regardless of the risk assessment made by DU or LP, the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered herein.
- In addition, the DE underwriter must underwrite the appraisal according to standard FHA guidelines. FHA has not approved the use of automated underwriting systems to review appraisals.

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 Analysis

Overview

The Direct Endorsement (DE) Underwriter must always consider the applicant's entire credit history. The manner in which the Borrower has managed his or her previous credit is a strong indicator of future performance. In a subjective evaluation of credit, many factors are considered when evaluating a Borrower's credit history. More weight should be given to the Borrower's payment experience within the past two years. An acceptable credit history of one Borrower does not offset the unacceptable credit history of another. An acceptable credit history is not considered a compensating factor. It is a requirement and essential to making an investment quality loan. Capacity or collateral strengths cannot offset the lack of a sufficient credit history.

- The following criteria must be applied when evaluating the applicant's credit history:
 - The applicant's credit history should clearly document the ability and willingness to meet regularly scheduled financial obligations.
 - The Direct Endorsement Underwriter is responsible for reviewing all credit reports, regardless of the manner of underwriting (manual or automated). The review of the credit report must confirm that all data is accurate, complete and properly documented. If serious inaccuracies are discovered in the course of this review, an Approve/Eligible decision must be downgraded to a Refer. See AUS Underwriting Decision – Manual Downgrades above for further clarification.
 - Documentation in the file must clearly support an applicant's ability to meet financial obligations in a timely, responsible manner.
- A full tri-merge credit report is required for all transactions. The credit report must be issued (or re-issued) through Reunion Direct
- 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
- 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. This requirement may be waived on loans approved through TOTAL Scorecard (DU/LP).
- Recent inquires must be explained in detail
- 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 or LP 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.
- There must be verification and documentation of the previous 12 months of housing history, even if the borrower states he/she was living rent-free. It is not acceptable to waive the verification of the rental mortgage history if one exists.
NOTE: On loans approved through TOTAL (DU Approve/LP Accept), the rental history requirements above can be waived by the DE Underwriter.
- Mortgage Rating:
 - Loan must be current for the month due prior to the month in which they close the refinancing and for the month in which they close. For example, if the mortgagor is closing on April 8, the mortgagor must have paid the March payment within the month of March. The mortgagor must make the April payment by closing. The mortgagor has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing.
 - 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.
 - **Restructured / Modified Mortgage**
 - **Subject Property: If the existing loan was restructured, it is not eligible for refinance.**
 - **Other property: If the only modification is for interest rate and there are no late payments 30 days or greater in the last 12 months the loan is eligible**
 - **Other property: If the modification includes forgiveness of balance or interest then treat as a prior foreclosure which requires at least 3 years seasoning**
- Bankruptcy – Documentation of the bankruptcy satisfaction must be included in the loan file.
 - Chapter 7 Bankruptcy
 - A minimum of two years must have elapsed since the date of discharge of bankruptcy
 - Credit report documenting date of discharge or copy of discharge papers is required
 - Borrower must have re-established acceptable credit or chosen not to incur new credit obligations
 - Chapter 7 Bankruptcy with Documented Extenuating Circumstances
 - A minimum of 12 months must have elapsed since the date of discharge
 - Credit report documenting date of discharge or copy of the discharge papers is required
 - Borrowers' written statement is required, which must attribute the cause of the financial difficulties to factors beyond his or her control. The difficulties must not be ongoing or likely to recur.
 - Must provide supporting documentation to verify the extenuating circumstances. The supporting documentation must correlate to the borrower's explanation and confirm the events were an isolated occurrence, which resulted in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. Examples include documents that confirm the event, i.e. a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.
 - Supporting documentation establishing the date of the foreclosure or deed-in-lieu or a copy of the applicable bankruptcy documents to confirm the bankruptcy documents

to confirm the bankruptcy discharge date and identify any debts not satisfied by the bankruptcy

- Supporting documentation indicating all debts are paid
- Chapter 13 Bankruptcy
 - A minimum of 12 months of the payout period has elapsed and the bankruptcy and the payout performance has been satisfactory with all required payments on time
 - Borrowers must receive written permission from the counseling agency to enter into the mortgage transaction

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

- Debt payoff: The payoff or paydown of revolving debt for qualification purposes is not permitted. All revolving debt, regardless of the outstanding balance must be included in the monthly debt obligations for qualification.
- All FHA Loans are subject to clear CAIVRS for each borrowers
- 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, the borrower is relying on other property located in a community property state as a basis for repayment of the loan, 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 credit report for the non-purchasing spouse can not be a joint report, it must be obtained separately
 - 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.
 - Calculate the monthly obligation of the non-purchasing spouse by using the greater of the monthly payment amount or 5% of outstanding balance of all debts and include in the debt ratio calculation
 - 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
 - **List of Known Community Property States**
 - Arizona Nevada
 - California Texas
 - Washington
 - **State Specific Requirements for Community Property States**
 - Arizona

- The satisfaction of collections and judgments for the non-purchasing spouse is not required under the following circumstances:
 - 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 defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing.
- Collection accounts of the non-purchasing spouse to be satisfied at the discretion of the DE Underwriter.
- Debts acquired prior to the marriage are counted as joint liability. Debts can only be excluded with a specific Pre-marital agreement.

Nevada

- Debts acquired prior to the marriage or acquired sole and separate are excluded from the qualifying ratios.

Washington

- Debts of the non-purchasing spouse are excluded from the qualifying ratios if the non-purchasing spouse receives no money from the transaction.
- When no funds are received from the transaction, the non-purchasing spouse may quit claim his/her interest to the purchasing spouse

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
F31T	360	1/1/5	margin	2.00

- **F15 & FJ15:** 15 year fixed rate loans
- **F30, F30II & FJ30:** 30 year fixed rate loans
- **F31T:** 30 year loan with an initial fixed interest rate for 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.
 - Index: The weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year or equivalent (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.
- Total Scorecard –refer to AUS Underwriting section above

- Loans that receive Refer/Eligible Findings from DU or Caution findings from LP must contain documentation for the compensating factors that are being used to overcome the Refer/Caution 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**
 - Maximum loan amount is \$500,000 when any borrower or co-borrower is not a US Citizen
 - 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**
 - Maximum loan amount is \$500,000 when any borrower or co-borrower is not a US Citizen
 - 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
- See General Underwriting Guidelines for complete guidelines on Borrowers

Escrow Waivers

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

Income

- **Salary and Hourly Wages** - If the VOE or paystub for a borrower who is paid on an hourly basis does not indicate the number of hours worked per week, or if it gives a range of hours, the borrower's actual earnings for the past two years, including his/her year-to-date earnings, must be averaged to determine the monthly gross income. Base pay income calculations must be compared with YTD figures using the VOE or paystub. If there is any evidence of declining income, an average of the previous year's wages may not be used unless it is able to be fully explained and supporting documentation is provided.
- **Part-Time vs. Regular Employment Hours** - Part-time income refers to jobs taken in addition to the normal, regular employment to supplement the borrower's income, i.e., a second job. It does not refer to primary regular employment of less than 40 hours per week. Example of a primary job less than 40 hours per week is a registered nurse who has been working 24 hours per week for the last year. This is the borrower's primary job, even though less than 40 hours.
 - Part-time (second job) income may be used if the borrower has worked the part-time job uninterrupted for the past two years and will continue to do so.
 - Income that has been received for less than two years may be included provided it can be determined that its continuance is likely.
 - Income from part-time positions not meeting these requirements should be considered as compensating factors.
 - Seasonal part-time employment (i.e., umpiring baseball games in summer; working at a department store during the Christmas shopping season) is considered uninterrupted and may be used in qualifying if the borrower:
 - Has worked the same type of job for the past two years**AND**
 - Expects to be rehired during the next season.
- **Overtime Income** - Overtime income may be used to qualify if such income has been received for the past two years and it is expected to continue.
 - An average of overtime income for the past two years must be developed and the employment verification must state that such income is likely to continue.
 - Less than two years may be acceptable if the underwriter justifies and documents the reason for using the income
 - The following documentation should be obtained to show a history of receipt of overtime income:
 - Written Verification of Employment (WVOE) covering the most recent two years detailing the amount of overtime income. The written VOE from the current employer must indicate that overtime income is expected to continue.**OR**
 - Most recent year-to-date paystub documenting at least 30 days of income detailing overtime income plus

- W-2s covering the most recent two years;
OR
- Verification from The Work Number® Web Site (covering the most recent two years of overtime income).
- If the borrower has changed jobs within the same line of work within the last two years, the loan file must contain documentation evidencing a history of receipt of the overtime income for the past two-years. Documentation should include verification from current and all prior employers providing details of all overtime income for the prior two years. If the borrower has yet to receive any overtime income from the new employer, the anticipated overtime must be deemed reasonable. The Underwriter should consider the borrower's length of employment with the new employer and should ensure documentation is present in the loan file that outlines projected overtime earnings.
- The following methods should be used for calculating overtime income:
 - An earnings trend must be established. If the income shows a continual decline, the underwriter must provide a sound rationalization for including the income for qualifying.
 - Use the average overtime income over the past 24 months if the borrower's prior two years and year-to-date annualized overtime income show that overtime income has been consistent or moderately increased each year.
 - If the overtime income shows a significant increase or decrease over the prior two years, the DE underwriter must individually assess the overtime income history. While fluctuations in overtime income is expected, overtime that shows a significant declining trend is generally not considered stable and therefore may only be used as qualifying income if the loan file contains documentation and supporting rationale by the DE underwriter that the income has stabilized at the lower level.
 - If overtime income varies significantly from year-to-year, a period of more than two years must be used in calculating the average income.
- **Bonus Income** - Bonus income may be used to qualify if such income has been received for a minimum of the past two years and is expected to continue.
 - An average of bonus income for the past two years must be developed.
 - The borrower should have a two-year consecutive history of receiving bonus income.
 - The employment verification must state that such income is likely to continue.
 - Bonus income received for less than two years may be acceptable if the underwriter justifies and documents the reason for using the income.
 - The following documentation should be obtained to show a history of receipt of bonus income:
 - Written Verification of Employment (WVOE) covering the most recent two years. The written VOE from the current employer must indicate that such income is likely to continue.
OR
 - Most recent year-to-date paystub documenting at least 30 days of income plus
 - W-2s covering the most recent two years
OR
 - Verification from The Work Number® Web Site (covering the most recent two years of bonus income)
 - If the borrower has changed jobs within the same line of work within the last two years, the loan file must contain documentation showing a history of receipt of bonus income over the prior two years. Documentation should include verification from all prior employers providing details of bonus income in the past two years. If the borrower has yet to receive any bonus income from the new employer, the anticipated bonus income must be deemed reasonable. The Underwriter should consider a borrowers length of employment with the new employer and should ensure documentation is present in the loan file that outlines projected bonus earnings.
 - The following documentation is required to show that bonus income is expected to continue:

- The employer has indicated likelihood of continuance on the Verification of Employment (VOE)
OR
- A separate written statement from the employer indicating likelihood of continuance of bonus income
OR
- A documented assessment by the DE underwriter indicating that a written statement from the employer could not be obtained and outlines their rationale on why continuance of bonus income is deemed likely.
- The following methods should be used for calculating bonus income:
 - Use the average income over the past 24 months if the borrower's prior two years and year-to-date annualized bonus income show that bonus income has been consistent or moderately increased each year. Frequency of bonus payments must generally be known to appropriately annualize a bonus amount from year-to-date pay stub.
 - If the bonus income shows a significant increase or decrease over the prior two years the DE underwriter must individually assess the bonus income history and provide the appropriate rationale for including the income.
 - If bonus income varies significantly from year-to-year, a period of more than two years must be used in calculating the average income.
 - A conservative method that assumes that the frequency of bonus payments is on an annual basis (unless documented otherwise) must be used when calculating bonus income.
- **Commission/Production Based (Piece Work) Income** - When commission or production-based income is needed to qualify for the loan, the borrower must have a two-year consecutive history of receiving commission/production based income and the income must be likely to continue. The employment verification must state that such income is likely to continue.
 - A commissioned borrower is one who receives more than 25 percent of his/her annual income from commissions.
 - The following documentation should be obtained to show a history of receipt of commission/ production-based income:
 - A written Verification of Employment (VOE) covering the most recent two years, detailing the amount of all income including commission/production-based income. The written VOE from the current employer must indicate that commission/production-based income is expected to continue
 - Complete signed federal tax returns for the most recent two years if commissions consist of greater than 25 percent of annual income.
 - **OR**
 - Most recent year-to-date paystub documenting at least 30 days of income detailing commission/production-based/ income plus W-2s and/or 1099s covering the most recent two years plus complete signed individual federal tax returns for the most recent two years;
 - **OR**
 - Verification from The Work Number® Web Site detailing the amount of commission/production-based income and complete signed individual federal tax returns for the most recent two years.
 - If the borrower has changed jobs within the last two years, the loan file must contain documentation showing a history of receipt of commission/production-based income over the prior two years. The documentation should include verification from all prior employers providing a detail of commission/production-based income in the past two years. If the borrower has yet to receive any commission /production-based income from the new employer, the loan file must also contain an employment contract or other documentation projecting commission/production-based income earnings and documentation demonstrating the borrower has been in the same line of work for the past two years.

Example: It would be unacceptable to allow commission income to qualify if the borrower recently started earning commission selling cars but previously earned commission selling real estate

- The following methods should be used for calculating commission/production-based income:
 - Use the average income over the past 24 months if the borrower's prior two years and year-to-date annualized commission/production-based income to show that the income has been consistent or moderately increased each year. Frequency of commission/production-based payments must generally be known to appropriately annualize a commission/production-based amount from year-to-date pay stub.
 - If the commission/production-based income shows a significant increase or decrease over the prior two years, the DE underwriter must individually assess the commission/production-based income history and provide the appropriate rationale for including the income.
 - If commission/production-based income varies significantly from year-to-year, a period of more than two years must be used in calculating the average income.
 - Unreimbursed business expenses must be subtracted from gross income when the tax returns are present in the loan file.
 - Borrowers with commission income/production-based income received between one and two years may be considered provided the underwriter is able to make a sound rationalization for acceptance and can document the likelihood of continuance.
- Commissions or production-based income earned less than one year are not considered effective income. Exceptions may be made in those situations where the borrower's compensation was changed from a salary to commission or production-based within a similar position with the same employer.
- **Non-Taxable Income**
 - Non-taxable income must be grossed up by 15% or 25% for qualifying
 - The borrower's current tax rate based on last year's tax return should be used to calculate the current tax rate. Use 15% or 25% depending on the borrower's tax rate. If the borrower is not required to file a federal income tax return, use 25% as the tax rate.
- **Disability Income**

Disability benefit payments (Social Security disability insurance benefits or Veterans disability compensation benefits, among others) may be treated as acceptable, stable income provided it is properly documented and a minimum duration of three years can be verified. Disability income that is not guaranteed for a minimum of three years may be considered on a case-by-case basis, depending upon the terms of the disability and the circumstances of the individual loan.

 - **Permanent Disability**
 - Verification must specify the payment amount, and conditions for termination of payment.
 - The income continues for 3 years.
 - Required documentation
 - Award letters or any document from the borrower's insurance carrier or employer that addresses the amount of income and the likelihood of it continuing for at least 3 years and
 - Account statements verifying receipt of income
 - **Temporary Disability - Leave of Absence**
 - Borrower to provide all of the following:
 - Award letter(s) that shows the current amount of disability being paid. If the disability award letter does not show the current amount of payment, obtain a copy of the most recent disability check received by the borrower.
 - Direct verification from the payer of the disability income showing the current amount received and any conditions for termination.
 - Letter from the borrower on temporary disability clearly stating that he/she fully intends to return to work once the disability no longer exists. If possible, obtain a copy of the doctor's notice showing the date that the borrower will return to work.

- A letter or verification from the employer must be obtained stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return.
Note: It is important to verify that the borrower is on temporary disability leave and will be returning to work. If the borrower volunteers information about the disability itself (i.e. pregnancy, broken hip, major surgery, etc.), that information must not factor into the loan process.
Note: The income the borrower will earn upon returning to work must be equal to or greater than the monthly temporary disability payment used to qualify for the loan. If the future employment income will be less than the disability income, the amount used in qualifying for the loan must be reduced to the lesser of the two.

Ineligible Loan Types

- **FHA Streamline Refinance**
- FHA Secure
- FHA HOPE – H4H
- HECM – Reverse mortgage
- EEM (loans used to finance Energy Efficient Mortgage upgrades)
- 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
- Loans where the Listing Agent, Selling Agent, Loan Officer, Broker, and/or Seller are affiliated and representing both sides of the transaction are not eligible.

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 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>
- 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

Base Loan Amounts for FJ15, FJ30

Continental US	Minimum	Maximum
1 unit	\$417,001	\$625,500
2 unit	\$533,851	\$800,775
3 unit	\$645,301	\$967,950
4 unit	\$801,951	\$1,000,000*

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

Mortgage Insurance Premium

- FHA requires Mortgage Insurance on all loans. There are two types: Up Front Mortgage Insurance (UFMIP) and monthly. The monthly MIP is required until the loan balance equals 78%, provided the borrower has paid the annual MIP for at least 5 years (scheduled or actual).
- **FHA Case Assignments 04/18/11 or after**
 - UFMIP is 1.00 for all transactions
 - Monthly all transactions per grid

30 Year		15 Year	
LTV	Monthly	LTV	Monthly
≤ 95	1.10	≤ 90	.25*
> 95	1.15	> 90	.50

* There is no monthly MIP on 15 year loans with LTV ≤ 78

- **FHA Case Assignments 10/4/10 through 04/17/11**
 - UFMIP is 1.00 for all transactions
 - Monthly all transactions per grid

30 Year		15 Year	
LTV	Monthly	LTV	Monthly
≤ 95	.85	≤ 90	None
> 95	.90	> 90	.25

- **FHA Case Assignments 4/5/10 through 10/3/10**
 - UFMIP is 2.25 for all transactions
 - Monthly all transactions per grid

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

Occupancy

- Owner occupied only
- **Retaining Current Residence** - When a borrower is vacating their current residence and purchasing another primary residence, rental income from the vacated property may not be included in the total qualifying income, with the following exceptions:
 - Borrower is relocating with a new employer or being transferred by their current employer to an area that is not within a reasonable commuting distance, rental income from their current primary residence may be considered.
 - The following documentation must be provided to include rental income:
 - A lease agreement signed by the borrower and the lessee/tenant for at least 12 months

- Evidence of the security deposit and/or evidence that the first month's rent was paid to the borrower
- Current residence may have a maximum 75% LTV supported by a current appraisal that is no more than six month old
 - Fannie Mae form 1004/Freddie Mac form 70
 - Fannie Mae/Freddie Mac form 2055 exterior only appraisal report
 - Fannie Mae form 1075/Freddie Mac form 466 for condominium units
- Borrowers with negative equity on current residence are not eligible for financing.
- Borrowers with zero (0) to < 25% equity in current residence must have 6 months PITIA cash reserves for each property and qualify for both properties without any rental income. (This includes borrowers that are eligible under FHA guidelines for relocations.)
- Rental income on the property being vacated must be reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>)
- When their current residence has an FHA loan, there are additional restrictions per the 4155.
- **Increase in Family Size.** The borrower may be permitted to obtain another home with an FHA-insured mortgage if the number of legal dependents increases to the point that the present house no longer meets the family's needs. The borrower must provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's needs.
- The borrower also **may** pay down the outstanding mortgage balance on the present property to a 75 percent or lower loan-to-value (LTV) ratio. A current residential appraisal must be used to determine LTV compliance. Tax assessments, market analyses by real estate
- **Occupancy of former investment property (effective for case assignments on or after 04/14/11)** – The below restrictions apply to mortgagors who re-occupy their investment property securing the mortgage which is being refinanced
 - If former investment property is occupied 12 months or more prior to the loan application date of the refinance mortgage, maximum financing is at the same level as owner-occupant
 - If former investment property is occupied less than 12 months prior to the loan application date of the refinancing mortgage, rate and term refinancing only with an LTV not to exceed 85%
- See General Underwriting Guidelines for complete guidelines on Occupancy

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
 - Properties located within a designated Coastal Barrier Resource System (CBRS)
- **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 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.
 - NOTE: Reunion requires a minimum of 90 days from the date of seller acquisition to sales contract and does not recognize the waiver to the 90 day flipping rule as announced with News Release issued on January 15, 2010.
 - **For re-sales 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 re-sales 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.
- **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.
- **Non-permitted addition**
 - Non permitted additions that are given value and an adjustment is not made for cost to cure require an Underwriter Exception.
- See General Underwriting Guidelines for complete guidelines on Property/Appraisal

Qualifying Payment

- FHA ARM loans with an initial fixed-period of 3 years qualify at the note rate

Ratios

- **DTI**
 - Approve/Eligible
 - Fully Amortized: no maximum – Ratios evaluated by TOTAL Scorecard
 - Refer/Eligible or Caution Findings – 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.
- **Maximum LTV**
 - The total loan amount (including UFMIP) can not exceed 100% LTV on all transactions
 - Purchase: 96.5%
 - Rate/Term Refinance : 97.75%
 - Refer to Transactions Section for maximum loan amount calculations
- **3-4 Unit Property Qualification**
 - Effective for case assignments on or after 04/14/11 the following requirements also apply to all refinance transactions
 - Self Sufficiency Test
 - The maximum mortgage for three and four unit properties is limited, so that the ratio of the monthly mortgage payment, divided by the monthly net rental income does not exceed 100 percent (include the owner occupied unit for this calculation).
 - Calculate the net rental income by taking the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and subtract the greater of the appraiser's estimate for vacancies, or vacancy factor used by the jurisdictional HOC.
 - NOTE: This net rental income calculation is used to determine the maximum loan amount. Projected rent may only be considered gross income for qualifying purposes. It cannot be used to offset the monthly mortgage payment.
 - Form HUD-92561 Borrower's Contract with Respect to Hotel and Transient Use of Property must be signed by the borrower(s) at application
 - Borrowers must have personal reserves of at least 3 months PITIA after closing. Reserves cannot be from a gift.

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
 - **Institutional lenders** and private individuals may provide secondary financing provided the combined amounts of the 1st and 2nd liens do not exceed the applicable LTV ratio
 - 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
 - **Subordinate financing from the following sources are considered Down Payment Assistance Programs and are not eligible**
 - **Federal, state or local governmental agencies**
 - **Non-Profit agencies**
- 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 97.75% and the combined loan amounts
 - 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

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 (No Cash Out) refinance**
 - Loan must be current for the month due prior to the month in which they close the refinancing and for the month in which they close. For example, if the mortgagor is closing on April 8, the mortgagor must have paid the March payment within the month of March. The mortgagor must make the April payment by closing. The mortgagor has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing.
 - New secondary financing is **not** permitted
 - May subordinate existing junior liens to maximum of 97.5% 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 from FHA Connection
NOTE: FHA does not credit more than the amount of the UFMIP on the new loan. When the UFMIP Refund exceeds the new UFMIP, the credit is limited the UFMIP on the new loan.
 - **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

Underwriting

- FHA loans must be underwritten by a Reunion DE Underwriter
- Loans must receive DU Findings of Approve/Eligible or Refer/Eligible, or LP findings of Accept or Caution.
- Refer/Eligible and Caution loans must include compensating factors listed on the FHA Transmittal that address the reason for the Refer/Caution and supporting documentation is required in the file
- Refer/Eligible and Caution 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