

FHA

Overview

The Federal Housing Administration (FHA) was established as a division of the U.S. Division of Housing and Urban Development (HUD) in 1934 to expand national homeownership opportunities, increase minority homeownership, make the home buying process less complicated and expensive, and keep existing homeowners from losing their homes.

Note: The underwriting information contained in this chapter is intended for use in conjunction with HUD Handbook 4155.1 and subsequent applicable mortgage letters.

All loans up to \$417,000 are coded as an F-F30. Anything \$417,001 and over is coded as an F-F30J.

6.1-A Eligible Properties

- 1-4 Units
- FHA Approved Condos (low and high rise)
- PUDs

6.1-B Ineligible Properties

- Condo hotels
- Commercial buildings
- Mobile/Manufactured housing
- Non-FHA approved condos
- Co-ops
- Log homes
- Leasehold Property

6.1-C Doc Type

Full

6.1-D LTV/CLTV Parameters

Purchase					
Occupancy	Max Loan Amount	Units	LTV	CLTV	FICO

Section 6: Government Products

Primary	Per HUD guidelines	1-4	96.50%*	n/a**	620
Rate and Term Refinance					
Occupancy	Max Loan Amount	Units	LTV	CLTV	FICO
Primary	Per HUD guidelines	1-4	97.75%*	n/a**	620
Cash Out Refinance					
Occupancy	Max Loan Amount	Units	LTV	CLTV	FICO
Primary	Per HUD guidelines	1-2	85%	85%**	620
<ul style="list-style-type: none"> ▪ Cash out refinances over \$417,000 require minimum 660 FICO ▪ DTI exceeds 45% the minimum FICO is 660 ▪ Streamline refinances over \$417,000 (\$625,500 in Hawaii) require a minimum 680 FICO ▪ Streamline Refinance minimum FICO is 640 					

*Maximum 100% including UFMIP. LTVs are calculated off the base loan amount.

**Please see Subordinate Financing section below

For help calculating the maximum mortgage amount, please see maximum mortgage calculation worksheet in Credit Policy, Section 6.2

6.1-E Loan Amount

Maximum Loan Amount: Loan amounts are set by law. Individual county loan limits can be found at <https://entp.hud.gov/idapp/html/hicostlook.cfm>. County ceiling range from \$271,050 to \$729,750. For loan amounts over \$417,000, please follow the jumbo guidelines. The loan amount may never exceed the 2009 geographical statutory limit except by the amount of any new UFMIP, even if the loan is a streamline refinance.

6.1-F Term

15, 20, and 30 year fixed rate. Jumbo loan amounts are allowed on 30 year term only.

6.1-G Underwriting

Loans must be run through DU or LP (Total Scorecard), even if manually underwritten. If a loan receives a “refer” decision and the underwriter does a manual underwrite, the loan will require a second signature by a corporate underwriter. This guideline also applies to credit qualifying streamline refinances. Restated: All credit qualifying government loans that do not have an AUS approval will require a second signature from a corporate underwriter.

All loans require a 620 minimum FICO. Minimum Fico for Streamlines is 640. Minimum Fico for High Balance (over \$417,000) cash out refinance is 660.

All loan amounts over \$650,000 require a second signature from a corporate underwriter.

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.

All FHA loans will be subject to the DTI, FICO, and 2nd signature requirements as listed in the SNMC General Guidelines, section 2.

The maximum number of financed properties, including subject FHA property, is 4

Cash reserves are not required on 1-2 unit properties. 3-4 unit properties require 3 months PITI.

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

- 1-4 unit family homes, PUDs, FHA-approved condominiums, or HUD-owned properties
- At least one borrower must occupy the property and sign the Note and security instrument for the property to be considered owner-occupied
- The borrower must occupy the property within 60 days after the loan closes with continued occupancy for at least one year. The only exceptions allowed are due to hardship or extenuating circumstances
- There is no limit on the maximum acreage for FHA loans

HUD does not insure non-owner purchase transactions. However, HUD will insure a refinance of a non-owner occupied fixed-rate loan under the Streamline Refinance program.

6.1-H Allowable Fees

SecurityNational Mortgage may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage. Borrower may not pay a tax service fee.

Maximum net broker compensation "rebate" on FHA loans is 4%

6.1-I Appraisals

Effective for all case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed and under construction properties will be 120 days.

A second appraisal will be required when:

- Resale of property greater than 90 days and up to 180 days if the resale price is greater than or equal to 100% over the property seller's acquisition price.

If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be predicated upon the lower of the two appraised values.

Guidelines for additional appraisal:

- Both appraisals need to be completed by FHA approved appraisers
- The broker is allowed to order the second appraisal
- Only the first appraisal you order will have the FHA case number
- If the property is a one unit detached property the second appraisal may be an exterior-only using Form 2055.

On a case by case basis, some appraisers may not be able to provide comparable sales within 90 days. In areas that are not declining markets this may be acceptable.

If the appraiser is unable to provide at least one comparable sale that closed within the last 90 days, pull Fraudguard/Dissco and review it for an acceptable value, comparable sales, etc. If Fraudguard does not support the value then order an AVM from Landsafe, RELS, etc. Only order a field review if the AVM does not support value or you feel an additional appraisal would offer a second opinion of value. If you normally order a desk review and find that it gives you the information and support that you need, then go ahead and order a desk review. We have found that some offices order AVM's, or Desk Reviews and that is sufficient for their areas, but may not be sufficient for a declining market area. Use the options that you have found work will for your area, whether it is an AVM, Desk Review, or Field Review.

Market Conditions addendum

FHA is requiring the Market Conditions Addendum for appraisals performed on or after April 1, 2009. Mortgagee Letter 2009-09 gives the appraiser some requirements on appraising properties in **declining markets**. The following are some highlights of this Mortgagee Letter:

1. Appraisals of properties located in declining markets must include at least two comparable sales that closed within 90 days. If the appraiser is unable to find comps that closed within 90 days, he/she is to provide a detailed explanation and include at least two sales that are as similar as possible that closed within 90 days.
2. Include a minimum of two active listings or pending sales on the appraisal grid along with the closed sales comps. The appraiser should adjust the active listings to reflect the list to sale price ratio for the market. Adjust pending sales to reflect the contract purchase price and the list to sale price ratio
3. The appraiser is to reconcile the adjusted values of active listing or pending sales with the adjusted values of the closed sales provided. If the adjusted values of the closed comps are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate

Please read Mortgagee Letter 2009-09 for additional information

Adoption of the Appraisal Update and/or Completion Report (FNMA 1004D/FHLMC 442)—Mortgagee Letter 2009-51

Effective for all case number assignments on or after 2/15/2010. FHA is adopting the dual purpose form, Appraisal Update and/or Completion Report.

- Part A, summary Appraisal Update Report, provides for updates of existing appraisals when the appraiser concurs with the original appraisal report and updates the appraisal by incorporating the original appraisal report.
- Part B, Certification of Completion, provides for compliance repair and completion inspections for existing and new construction dwellings.

Reduction of Appraisal Expiration Date—Mortgagee Letter 2009-30

Effective with all case numbers assigned on or after 1/1/2010, the validity period of all FHA appraisals has been reduced to 120 days. This applies regardless of the property's construction stage (existing, new, under construction, or proposed).

Portability of Appraisals from One Lender to Another—Mortgagee Letter 2009-29

Effective for all case number assignments on or after 1/1/2010, the following new guidelines apply when a borrower switches from one FHA approved lender (first lender) to another (second lender), and an appraisal was ordered and completed for the first lender. FHA recognizes that the second lender may need to order a new appraisal, but this is allowed only under limited circumstances.

1. The DE underwriter for the second lender found material defects with the original appraisal.
2. The original appraiser is on the second lender's exclusionary list.
3. The first lender failed to provide a copy of the appraisal in a timely matter, which causes potential harm to the borrower for events outside of the borrower's control. The events include rate lock expiration, purchase contract deadlines, and foreclosure proceedings.

For cases 1 and 2 above, the lender must retain both appraisals in the FHA case binder. For case 3 the first appraisal must be added to the case binder when it is received. In all cases, the lender must document why a second appraisal was ordered and retained in the case binder.

Appraiser Independence—Mortgagee Letter 2009-28

Effective for all case numbers assignments on or after 2/15/2010, FHA lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender's staff who is compensated on a commission bases tied to the successful completion of a loan.

SNMC has established an appraisal management department to handle this new process. The manager of the department is Kevin Swenson, and he works under Ken Parr's direction. If you have not already heard from them, you will be hearing shortly. UW Memo 41.2009

6.1-J ARM Guidelines

3/1 Arm

- Product code: F-A3T
- DU ARM plan: FHA HYBRID
- Margin: 2.25%
- Borrowers qualify at the note rate
- Caps: 1/1/5

5/1 Arm

- Product code: F-A5T
- DU ARM plan: FHA HYBRID
- Margin: 2.25%
- Borrowers qualify at the note rate
- Caps: 1/1/5

6.1-K Assumability

Assumable by qualified borrower

6.1-L Building on Own Land

The following information is for guidance on FHA Building on Your Own Land transactions. We have posted an updated worksheet on the credit policy site for use in calculating the loan amount.

LTV limits are applied to the lesser of:

1. The appraised value, or
2. The documented acquisition costs of the property, which includes:
 - a. The builder's price, or the sum of all subcontractor's bids, materials, etc.
 - b. Cost of land (if the land has been owner more than six months or received as an acceptable gift, the value of the land may be used instead of its costs.
 - c. Interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property

Equity in the land (value or cost, as appropriate, minus the amount owed) may be used for the borrower's entire cash investment. If the borrower receives more than \$250.00 cash back at closing, the loan is limited to 85% of the sum of the appraised value and allowable closing costs. Replenishment of the borrower's own cash expended during construction is not considered as "cash back" – provided the borrower can document with cancelled checks and paid receipts all out of pocket costs used for construction.

All case numbers will need to be ordered as purchase transactions. The HUD-1 statement will resemble a refinance transaction. The Building on Own Land Calculation Worksheet will need to be completed and provided in all files. The “Total Acquisition Cost” as listed on worksheet will be used as “contract sales price” for calculation purposes. The allowable closing costs paid by borrower are no longer allowed to be included in the “Total Acquisition Cost calculation”. Loan will need to be submitted as a purchase through the FHA scorecard to support borrower has made 3.5% minimum investment. All inspections and other new construction documents are required.

See Chapter 2, Section B.5 of the HUD 4155 for additional information on Building on Your Own Land.

6.1-M Compensating Factors

Compensating factors that may be used to justify approval of mortgage loans with ratios exceeding FHA guidelines are listed below. Underwriters must record on the “remarks” section of the FHA Underwriting Transmittal the compensating factor(s) used to support loan approval. Any compensating factor used to justify mortgage approval must be supported by documentation. A list of compensating factors can be found in the 4155.1 Chapter 4, Section F, #3 Compensating Factors. Some examples include:

- 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
- Borrowers makes a large down payment (10% or more) and the source of down payments represents a borrower strength (ability to save, etc)
- Ability to accumulate savings and a conservative attitude toward credit
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses
- Income documented as received, yet not used in qualifying
- Minimal increase in housing expense
- Substantial cash reserves (3 months or more) after closing
- Substantial non-taxable income documented and not used in qualifying
- Potential for increased earnings documented
- Compensating trailing spouse income (may not be used as effective income)

Things that are not compensating factors:

- Employment stability (a requirement)
- Good credit (a requirement)

6.1-N Condominiums

- Effective with Case numbers assigned on or after December 7, 2009 the entire complex must be approved by HUD or a Direct Endorsement Lender. The two processes are referred to as HRAP (HUD Review and Approval Process) and DELRAP (Direct Endorsement Lender Review and Approval Process).
- SNMC will not approve condos under the DELRAP process at this time.

- FHA approved condo projects can be searched at:
<https://entp.hud.gov/idapp/html/condlook.cfm>
- SNMC requires a FHA Condo Certification to be completed and included in the file
- Project approval is not required for FHA to FHA non-credit qualifying streamline refinances, with or without appraisal or FHA/HUD REO sales.
- Spot condo approval process is eliminated as of Case numbers assigned on or after February 1, 2010.
- Site Condos are single family detached dwellings encumbered by a declaration of condo covenant or condo form of ownership. Must show in CC&R's and have legal description showing condo. Condo project approval is not required for Site Condos, however the condo rider must be included in the FHA case binder. Use appraisal form 1004. Although processed as Section 203(b) loans, the applicable ADP codes for Site Condominiums are 731 (Adjustable Rate Mortgages) and 734.
- HO-6 Coverage; in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a "walls-in" coverage policy (HO-6) Note: Impounds for HO-6 insurance are required.
- Additional guidelines are available in Mortgagee Letter 2009-19
- A printout from the web page showing evidence that the project is on the approved list should be included in the file.
- Underwriter must represent and warrant that the FHA approval conditions noted on FHA's website including, but not limited to, presale and occupancy requirement, have been met prior to closing. The project must be covered by the required insurance and may not be comprised of manufactured homes.
- FHA Certification attachment C must be signed by the underwriter and included in all files
- 50% owner-occupancy requirement-Occupancy is based on the total number of units in the project or (phase if applicable).
- Condo conversions are eligible for FHA approval. One year waiting period for condo conversions has been eliminated. May not be a conversion of a hotel/motel.

Notable Dates:

- Case numbers assigned on or after December 7, 2009
- Single family detached condominiums-effective immediately
- Temporary guidance is effective December 7, 2009-December 31, 2010
- Spot Approval process eliminated with case numbers assigned February 1, 2010 or after

Section 6: Government Products

<p><i>Approval Processing Options</i></p>	<p>HRAP-HUD review and approval process DELRAP-DE lender review and approval process (SNMC does NOT allow)</p> <ul style="list-style-type: none"> • First 5 projects must be submitted to HUD for review • Approval/Denial package must be delivered to HUD electronically within 5 days of disposition • Florida Condos are not eligible for DELRAP • Manufactured Home Condos are not eligible for DELRAP <p>Spot Approval Process: May continue until case numbers issued February 1, 2010 or after</p>
<p><i>Projects that do not require review</i></p>	<ul style="list-style-type: none"> • Site Condominiums • FHA to FHA Streamline Refinances • FHA/HUD Real Estate Owned
<p><i>Owner Occupancy</i></p>	<ul style="list-style-type: none"> • At least 50% owner occupied • No more than 10% of the units may be owned by one investor/developer/builder (if less than 10 units, no more than one unit by an investor) <p>Temporary Guidelines: Vacant and tenant-occupied REO units are excluded from the 50% calculation</p>
<p><i>FHA Concentration</i></p>	<p>Permanent Guidelines: 30%</p> <ul style="list-style-type: none"> • If 3 or fewer units, no more than one unit with FHA insurance • Concentration levels will be tracked on FHA Connection and http://www.hud.gov/, based on case numbers assigned for project <p>Temporary Guidelines: 50%</p> <ul style="list-style-type: none"> • May be increased to 100% for well established projects
<p><i>Pre-Sales</i> <i>Continued below</i></p>	<p>Permanent Guidelines: 50%</p> <ul style="list-style-type: none"> • Legal phasing is recommended • Phasing guidelines for vertical buildings are

Section 6: Government Products

	<p>provided</p> <p>Temporary Guidelines: 30%</p>
<i>New Construction</i>	<ul style="list-style-type: none"> • If a building permit and a certificate of occupancy was issued, neither an early start letter or a HUD 10 year warranty is required • Builder’s Certification, Builder’s Warranty and Affirmative Fair Housing Marketing Plan are required • Temporary/Conditional Certificate of Occupancy may be acceptable under some circumstances
<i>Commercial Space</i>	<ul style="list-style-type: none"> • No more than 25% of a property’s total floor area may be commercial • Use must be homogeneous with residential use
<i>Right of First Refusal</i>	<ul style="list-style-type: none"> • Permitted unless it is discriminatory under the Fair Housing Act
<i>Condo Conversions</i>	<ul style="list-style-type: none"> • One year waiting period is eliminated • Rehabilitation must be 100% complete • Conversions from non-residential use are treated as new construction
<i>Environmental Review Requirements</i>	<ul style="list-style-type: none"> • Not required if the project has progressed beyond the stage of construction that HUD would have any influence • Appraiser identified environmental concerns must be addressed with mitigating factors
<i>Budget Review</i>	<ul style="list-style-type: none"> • Sufficient funds to maintain amenities • At least 10% of the budget for replacement reserves and capital expenditures • Adequate funding for insurance • In lieu of budget or reserve study, may use Fannie Mae form 1073a, Analysis of Annual Income and Expenses executed by the owners association or management company

<p><i>Insurance Requirements</i></p>	<ul style="list-style-type: none"> • Hazard Insurance • HO-6 Policy-If the master policy does not cover the interior of the unit, the homeowner is required to obtain an interior policy • Liability Insurance • Fidelity Bond/Insurance • Flood Insurance, if the property is located in a Special Flood Hazard Area
<p><i>Status of Projects on FHA's Condo Approval List</i></p>	<ul style="list-style-type: none"> • The current list is being moved to the new list in FHA Connection • Additional data entry guidance will be provided in an upcoming Mortgagee Letter • Recertification guidelines will apply (see below).
<p><i>Project Certifications</i></p>	<p>Initial Project Approval:</p> <ul style="list-style-type: none"> • Lender must certify on company letterhead signed by an authorized representative that the project complies with HUD's requirements • The Builder/Developer must certify per Attachment E that the project complies with HUD guidelines • Unrecorded legal documents utilized for project approval must be recorded prior to endorsing any FHA loans. <p>Lender's Certification to add a project to the approved list:</p> <ul style="list-style-type: none"> • Upon review of the project approval package, the lender must sign and date the Lender's Certification of Condominium Requirements, Attachment B <p>Lender's Certification for a project on the approved list:</p> <ul style="list-style-type: none"> • Subsequent lenders that want to insure an individual FHA loan in a condominium project are not required to perform a project approval review, but are required to perform a loan-level review to determine continued compliance with some of the initial review requirements. The lender Certification for

	<p>Individual Unit Financing, Attachment C is required.</p> <p>Recertification of Project Approvals:</p> <ul style="list-style-type: none"> • Required two years from the date a project was placed on the approved list • May use the DELRAP or the HRAP process • Must consider any pending assessments, legal action against the association, and if the project continues to maintain adequate insurance coverage
<p><i>Reconsideration of Rejected and Withdrawn Projects</i></p>	<ul style="list-style-type: none"> • Less than 12 months since rejection/withdrawal: Requires HRAP • More than 12 months since rejection/withdrawal: DELRAP or HRAP is acceptable
<p><i>Documentation Retention</i></p>	<ul style="list-style-type: none"> • Lenders must retain project approval documents for three years • All required condo certifications must be retained in the FHA case binder
<p><i>Lender Liability and Lender Monitoring</i></p>	<ul style="list-style-type: none"> • Lenders that issue a project approval using the DELRAP process are liable for any material defects found by HUD with the project approval or any loans they originate and/or underwrite in the project. • Lenders that rely on a project approval issued by another lender are only responsible for the loan-level certification

6.1-0 Credit History

Non-traditional credit on government loans has been eliminated (Spotlight 09.02.2008). All borrowers must have traditional credit history with the exception of non-credit qualifying streamline refinances. Here's some clarification on scenarios that you might come across.

- Two borrowers with no credit scores: Not Allowed
- One occupant borrower with a credit score and one occupant borrower without a credit score: Allowed. The reported credit score is used for qualification and non-traditional credit does not need to be built for the borrower with no credit score. Valid credit score and an automated approval through TOTAL scorecard is required.

- Occupant borrower with no credit score and a non-occupant borrower with a credit score: Not allowed, because the occupant borrower would be required to build non-traditional credit which is no longer acceptable
- Occupant borrower with a credit score and a non-occupant borrower without a credit score: Not allowed. A non-occupant borrower must have credit scores.
- Jumbo loans: All borrowers must have a FICO score

Foreclosure Seasoning – 3 years

Chapter 7 Bankruptcy Seasoning – 2 years from discharge

Chapter 13 Bankruptcy Seasoning – 1 year since the payout period. Must have satisfactory payment history and permission from the court

Consumer Credit Counseling – is treated the same as a Chapter 13

Judgments must be paid in full or a satisfactory repayment plan is in effect at time of application and there have been no late payments on the plan. Judgments cannot affect our lien position on title.

Collection accounts do not have to be paid prior to closing.

See HUD 4155.1 for additional guidelines

6.1-P Down Payment / Gifts

- Gift funds are acceptable for closing costs and down payment
- Seller-funded down payment assistance programs are not eligible
- Down payment cannot be from seller, realtor, or lender subsidy
- Maximum interested party contribution, including down payment assistance programs, is 6%
- Down Payment Assistance provided by non-profit organizations is allowed. Please see additional Down Payment Assistance guidelines in Section 3.5

The cash investment in the property must equal the difference between the amount of the insured mortgage, excluding any upfront MIP, and the total cost to acquire the property including prepaid expenses and closing costs. Acceptable funds to close include:

- Earnest Money Deposit
- Savings and Checking Accounts
- Gift Funds
- Collateralized Loans
- Sale Proceeds
- Trade Equity
- Sale of Personal Property
- Employer's Guarantee Plans
- Employer Assistance Plans
- Savings Bonds
- IRAs, Thrift Savings Plans, 401(k)s and Keogh Accounts

- Stocks and Bonds
- Cash Saved at Home
- Rent Credit
- Sweat Equity
- Commission from Sale
- Disaster Relief Grants and Loans
- Cash Accumulated with Private Savings Clubs

Additional information on these types of down payments can be found in the 4155.1, Chapter 5, Section B: Acceptable Sources of Borrower Funds.

FHA does not allow non-profit entities to provide gifts to homebuyers for the purpose of paying off installment loans, credit cards, collections, judgments, and similar debts.

HUD has revised their down payment requirements with Mortgagee Letter 2008-23. For all case numbers assigned on or after January 1, 2009:

- The required down payment will be 3.5%. For purchase money mortgages the LTV will be 96.5% and will apply to the lesser of the sales price or appraised value. This does not include the UFMIP or closing costs paid by borrower
- Closing costs may not be used to help meet the minimum 3.5% down payment requirement. Closing costs are not considered in the mortgage amount/down payment calculation for purchases
- The variable loan-to-value limits that were based on the combination of the property value and the average closing costs of the State where the property is located is not eliminated.
- The total FHA-insured first mortgage is limited to 100% of the appraised value and must include the upfront mortgage insurance premium (UFMIP) within that limit
- Premium pricing is still allowed to pay closing costs and prepaids
- When combined with an FHA first mortgage, government subordinate liens are not limited to 100%. Government grants used to pay down payment and/or closing costs in the form of secondary financing, can exceed 100% CLTV
- Refinance transactions are not subject to the 3.5% down payment requirement. The LTV will be calculated as it has been by dividing the loan amount, prior to addition the UFMIP, by the appraiser's estimate of value. However, the loan amount, including the UFMIP, may not exceed 100% of the appraiser's estimate of value for all new case number assignments made on or after January 1, 2009. Remember to complete the refinance worksheets in Credit Policy.
- The "Required" area listed on the 92900-LT needs to be the total funds for closing from the borrower. The amount listed in this area needs to be at least the borrower's required minimum investment into the property (i.e. 3.5% down payment). UW Memo 39.2009

6.1-Q Eligible Loan Programs

203(b) – Most frequently used loan program. Purchase or refinance. 1-4 unit properties.

234(c) – Condominium. The Condo project must be on the HUD approved condo list. See Condo section for more detail.

Energy Efficient Mortgage – May be used with most FHA property and loan types.

Good Neighbor Next Door – Available on some HUD owned properties. If the borrower is a civil servant, HUD may subsidize up to 50% of the purchase price.

203h Disaster – Increased financing for victims of natural disasters

247 Hawaiian Home Lands – Financing for homes in Hawaii that are under a homestead lease on Hawaiian Home Lands. **No longer available for loans locked after October 1, 2009.**

6.1-Q1 Ineligible Loan Programs

203k Rehabilitation – Financing for home improvements

248 Native American – Financing for tribal members on leasehold property located on reservations

6.1-Q2 Interest Only

Not available

6.1-R Approved Escrows on HUD Owned Properties

HUD will allow repair escrows to be financed in the new FHA loan amount on some REO properties. The purchase contract from HUD will address on line 4 if repair escrows are allowed. These guidelines should be followed:

- Mortgage lenders request the HUD appraisal from the M&M contractor. Appraisal should address what repairs are required and the cost to complete
- Obtain a copy of the fully executed purchase contract from the M&M contractor
- Purchase contract will list on line 4 the amount of the repair escrow that can be included in the mortgage
- The repair escrow listed on line 4 of the purchase contract is 110% of the estimated cost of repairs and must be used for the repairs specified in the property listing
- The repair escrow can be added into the loan amount. Please refer to Mortgagee Letter 2000-27 for instructions
- The maximum dollar amount to be eligible for FHA 203b financing is \$5000
- An escrow agreement for 110% of the cost of repairs must be signed by all parties
- A completed form HUD-92300, Mortgage's Assurance of Completion will be included in the case binder
- A completed form HUD-92051, Compliance Inspection Report (final inspection) must be submitted after the completion of repairs. The repair inspection must be performed by a qualified individual (but does not necessarily require an FHA Fee Inspector). DE underwriter determines the level of qualification necessary for the inspection

- The maximum escrow period is 60 days
- The escrow amount must be approved by the underwriter
- The Title Company will be instructed to hold the escrow monies until instructed by SNMC branch to disburse the funds according to our instructions
- It is the branch's responsibility to underwrite, close, track, and deliver all the follow up documentation

See Section 3.7-A12, Property Guidelines for additional information on Escrow Holdbacks including the SNMC Branch Monitored Escrow that is available for REO properties and Energy Efficient Mortgages (EEM's).

6.1-S Hawaii

Loan amount, LTV, and FICO guidelines listed are effective for all loans, even in Hawaii. However, for pricing purposes, only loans over \$625,500 need to take F-F30J9 pricing.

6.1-T Identity-of-Interest

Identity-of-interest transactions on principal residences are restricted to a maximum LTV of 85%

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

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

Restricted family member transactions:

- If the property being sold from one family member to another is the property seller's investment property, the maximum mortgage is 85% of the lesser of the sales price or appraised value. **The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.

Additional Restrictions

- If there is an identity-of-interest between the buyer and the property seller, commission from the sale or listing of the property cannot be used for the down payment
- An as-is appraisal of the subject property will be required

6.1-U Impound Accounts

Escrow waivers are not allowed

6.1-V Income

We do not impose a minimum length of time a borrower must have held a position of employment to be eligible. However, the lender must verify the borrower's employment for the most recent two full years. If a borrower indicates he or she was in school or the military during any of this time, the borrower must provide evidence supporting this claim, such as college transcripts or discharge papers. The borrower also must explain any gaps in employment spanning one month or more.

The income of each borrower to be obligated for the mortgage debt must be analyzed to determine whether it can reasonably be expected to continue through at least the first three years of the mortgage loan. Documentation requirements for the following additional sources of income can be found in the 4155, Section 2: Effective Income, Chapter 2-7:

- Overtime and Bonus Income
- Part-Time Income
- Military Income
- Commission Income
- Retirement and Social Security Income
- Alimony, Child Support, or Maintenance Income
- Notes Receivable
- Interest and Dividends
- Mortgage Credit Certificates
- Employee Differential Payments
- VA Benefits
- Rental Income
- Eligible Investment Properties
- Automobile Allowances and Expense Account Payments
- Trust Income
- Non-Taxable Income
- Projected Income

6.1-W Mortgage Insurance

MIP Premiums Based on Term:

The following tables list the MIP amounts based on the term of the loan for case numbers assigned on or after **April 5, 2010**.

- Upfront MIP can be financed into the mortgage amount or the entire amount may be paid in cash. UFMIP may not be partially financed

- Additional information can be found in Mortgagee Letter 2008-22

Upfront and Annual MIP Chart for Mortgages with Terms > 15 Years

LTV	Purchase and Refinance	Streamline Refinance
> 95%	2.25% / .55%	2.25% / .55%
≤95.01%	2.25% / .50%	2.25% / .50%

Upfront and Annual MIP Chart for Mortgages with Terms ≤ 15 Years

LTV	Purchase and Refinance	Streamline Refinance
> 90%	2.25% / .25%	2.25% / .25%
≤90.01%	2.25% / .0%	2.25% / .0%

UW Memo 10.2010

The following tables list the MIP amounts based on the term of the loan for case numbers assigned on or after **October 1, 2008 until April 4, 2010**.

Upfront and Annual MIP Chart for Mortgages with Terms > 15 Years

LTV	Purchase and Refinance	Streamline Refinance
> 95%	1.75% / .55%	1.50% / .55%
≤95.01%	1.75% / .50%	1.50% / .50%

Upfront and Annual MIP Chart for Mortgages with Terms ≤ 15 Years

LTV	Purchase and Refinance	Streamline Refinance
> 90%	1.75% / .25%	1.50% / .25%
≤90.01%	1.75% / .0%	1.50% / .0%

In E3, the UFMIP will default to 10%. It will be up to the underwriter to verify the correct premium. The underwriter should verify the case number assignment date, determine the appropriate UFMIP and monthly MIP and list both percentages in the remarks section of the MCAW and the notes section of EApprove. DU will give a message of the correct UFMIP and monthly MIP.

6.1-X New Construction Documentation

6.1-X1 Requirement for Proposed, Under Construction, and Existing < 1 Year:

Proposed and Master Appraisal Report (MAR) – approved prior to the beginning of construction by either a Conditional Commitment, Early Start Letter, or MAR form 91322 for High Ratio Loans.

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Final Inspection by fee inspector (HUD 92051)
- Health Authority approval on Well and Septic if needed
- Flood insurance (elevation cert noted as SFHA)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Cert (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty and final inspection by fee inspector (92051)
or
3 inspections by fee inspector (HUD 92051)**
or
Early Start letter and 3 inspections by fee inspector (92051)
or
Building permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)
- Health Authority approval if needed
- Flood insurance (elevation cert notes as SFHA)

** Only 2 inspections are required on a Modular home (like manufactured housing)

6.1-X2 Under Construction

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Final Inspection by fee inspector (HUD 92051)

- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty and final inspection by fee inspector (92051)
 - or
 - Building permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominium and manufactured homes)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)
 - ** If early start letter is in file – treat as proposed construction

FHA Final Inspection

When a property is “Under Construction” more than 90% complete at the time of appraisal with only minor finish work remaining (generally buyer preference items), items the appraiser would have the expertise to sign off, the final inspection may be completed by the appraiser under the guidance of Mortgagee Letter 01-27; otherwise the final inspections by must be done by a FHA Fee Inspector. UW Memo 3.2010

6.1-X3 Existing (New) < 1 year old

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)

High Ratio Loan: 90.01% and Higher

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builder Certification (HUD 92541) (not on condo)
- 1 year warranty (HUD 92544)
- 10 year warranty
 - or

Building Permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)

- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)

** If early start letter is in file – treat as proposed construction

6.1-X4 Requirements for new construction > 1 yr old not previously occupied

FHA will treat a new construction that is over 1 year old and not previously occupied as an existing home and will not require the normal new construction exhibits, provided that the underwriter documents that the home is over 1 year old by proving a Certificate of Occupancy. The date the home was cleared for occupancy will be the date to verify the home is over 1 year old.

6.1-X5 Requirements for Resale of an existing home < 1 year old

FHA will treat a resale of a second or subsequent purchaser of a new, less than one year old property that is 100% complete (including all on and offsite improvements) as an existing property and the new construction exhibits normally submitted will not be required, provided that:

- The re-sale is an arms-length transaction
- The lender clearly identifies the transaction as a resale to a second or subsequent purchaser in the case binder (to avoid an NOR being issued by the Homeownership Center for missing new construction exhibits)
- If the property is a manufactured home, the engineer preparing the foundation certification makes a site inspection and the property is 100% complete at the time of the inspection. Foundation certifications based on proposed construction will not be acceptable

With respect to property flipping rule, underwriters are reminded that while a builder selling a newly built home is not subject to the property flipping rule, a subsequent seller would be.

6.1-X6 Requirements for Refinance of a Conventional to FHA – Property < 1 year old

For a refinance of a conventional loan to and FHA loan on a property that is existing, less than one year old:

Low Ratio Loan: 90% and Lower:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
- Builders Certification (HUD 92541) (not for endorsement binder)
- Health Authority approval if needed
- Flood insurance (elevation cert noted as SFHA)

High Ratio Loan: 90.01% and Higher:

- Subterranean Termite Treatment Report – NPCA – 99a and 99b (termite state)
 - Builder Certification (HUD 92541) (not on condo)
 - 1 year warranty (HUD 92544)
 - 10 year warranty
- or
- Building Permit (or equivalent) and Certificate of Occupancy (or equivalent) (except on condominiums and manufactured homes)
- Health Authority approval if needed
 - Flood insurance (elevation cert noted as SFHA)

*** When a bank forecloses on a builder and is then listed as the "owner of record," the new construction is treated as existing. A final building permit and certificate of occupancy (or equivalent) should be obtained, but no "new construction documents" are required. Home must be complete. If the borrower must finish construction of the home then new construction docs would be required in most cases.

6.1-X7 Requirements for Manufactured Homes

There are additional requirements for new construction manufactured homes, but at this time, SecurityNational does not allow loans for manufactured homes

6.1-Y Non-Occupant Co-Borrowers

Allowed. Maximum financing is permitted for 1 unit properties when there is a familial relationship between borrowers. Multi-unit properties are limited to 75% CLTV regardless of relationship if using a non-occupant co-borrower. If the co-borrowers are unrelated and not all will occupy the property, the mortgage is limited to 75% CLTV. Non-occupant co-borrowers cannot be added to the loan on a cash out refinance

6.1-Z One FHA Loan Limitation

Generally, FHA will not insure more than one mortgage for any borrower. Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance, except under the conditions below:

- **Relocation:** If the borrower is relocating and reestablishing residency in another area not within reasonable commuting distance from the current principal residence (generally at least 50 miles away), the borrower may obtain another mortgage using FHA-insured financing and is not required to sell the existing property covered by FHA-insured mortgage

- **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 home no longer meets the family's needs. The borrower must also:
 - Provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's needs
 - Pay down the outstanding mortgage balance on the present property to a 75% or less loan to value ratio, exclusive of any financed MIP
- **Vacating a Jointly Owned Property:** If the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another FHA-insured mortgage. Acceptable situations include instances of divorce after which the vacating ex-spouse will purchase a new home or one of the co-borrowers will vacate the existing property
- **Non-Occupying Co-Borrower:** A non-occupying co-borrower on an FHA-insured mortgage being purchase as a principal residence by other family members may have a joint interest in that property as well as the principal residence that is covered by an FHA mortgage

6.1-AA Prepayment Penalty

Not allowed

6.1-BB Pricing

The lower of the representative scores should be used for pricing.

All loans up to \$417,000 re coded as an F-F30. Anything \$417,001 and over is coded as an F-F30J

6.1-CC Property Flipping

To address the issue of property flipping, FHA has placed certain time restrictions and additional documentation requirements on purchase transactions involving the resale of an existing property. Property eligibility is dependent upon the time that has elapsed between the date the seller acquired the property (based on the settlement date) and the date the buyer signed the sales contract or purchase offer (the resale date).

The property is not eligible for FHA mortgage insurance if the resale date is 90 days or less following acquisition by the Seller.

Time restrictions do not apply to:

- FHA REO properties sold by FHA
- Single family REO properties sold by all Federal Government Agencies
- Sale of properties by state and federally chartered financial institutions and Government Sponsored Enterprises (including Fannie Mae and Freddie Mac)**

** Provide evidence the seller is a state or federally chartered financial institution, or a government sponsored entity. (A charter is not the same as FDIC-insured). Provide the FDIC # or charter #.

- State charter information can be found at the State's website (for the State of California, it's under Department of Financial Institutions)
- Federal charter information can be found at FDIC.gov, Consumer Resources, Bank Find
- Evidence of government entities can be found on the entity's website
- If the financial institution utilized another company to sell the property, provide all appropriate copies of the power of attorney

Resale greater than 90 days: Loans with resale dates greater than 90 days and up to 180 days may require supplemental documentation. If the home is selling between 91-180 days and the sales price exceeds the previous sales price by 100% or more, FHA will require a 2nd appraisal.

For additional information, please see FHA Property Flipping Waiver, dated June 9, 2008

6.1-DD Qualifying Ratios

Standard ratios are 31/43% and should not be exceeded on manually underwritten loans by more than 2% with compensating factors. Jumbo FHA transactions are limited to 50% DTI, regardless of AUS findings. Underwriting Memo 11.2009 outlines our current "soft guidelines" of 40% housing and 50% total debt to income ratio. Ratio's over these "soft guidelines" constitute a high risk transaction and requires special consideration in underwriting. We have verbally communicated through the Regional Operations Managers, that the maximum DTI is 55%. If an underwriter feels a loan warrants approval with a DTI greater than 50%, it will require a second signature from one of the Regional Operations Managers or Corporate Underwriters. In most cases we will not exceed 55%.

An executed 4506-T form is required for all borrowers at the time of underwriting.

6.1-EE Rental Income

Rent received for properties owned by the borrower may be acceptable, subject to stability of rental income and proper documentation. Examples of stability may include a current lease, an agreement to lease, or a rental history over the previous 24 months that is free of unexplained gaps greater than three months.

Rental income on the property being vacated must be reduced by the appropriate vacancy factor as determines by the jurisdictional FHA Homeownership Center and may be considered under the following circumstances:

- **Relocations:** The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable commuting distance. A properly executed lease agreement of at least 1 year's duration after the loan closes is required
- **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (no more than 6 months old) residential appraisal or by

comparing the unpaid principal balance to the original sales price of the property. The appraisal can be an external only appraisal.

For more information, please review Mortgagee Letter 25-2008. The Mortgagee Letter applies to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns.

6.1-FF Residency

Permanent and non-permanent resident aliens are eligible provided they:

- Occupy the property as a principal residence
- Have a valid social security number
- Are eligible to work in the United States

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

Borrowers must provide evidence of a valid Social Security number. Evidence includes a copy of the borrowers Social Security card, W-2, or other government-issued card that includes the borrower's Social Security number. In addition, FHA requires validation of Social Security numbers for consistency with the borrower's name and date of birth through FHA connection on ECHO systems or its equivalent. Underwriters must resolve issues regarding Social Security numbers before loans are delivered for purchase.

6.1-GG Streamline Refinance Guidelines

General

Streamline refinances are subject to the following requirements

- Lenders may not use an abbreviated version of the URLA. The 1003 and HUD 92900-a HUD/VA addendum to URLA must be signed and dated by the borrowers before the loan is processed and underwritten.
- A minimum credit score of 640 is required for all borrowers
 - Credit report is only used to validate the credit score
- 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.
- Mortgage rating with no lates in the most recent 12 months. For mortgages with less than a 12 months payment history, the borrower must have made all mortgage payments within the month due.
- For FHA Streamline Refinance loan amounts over \$417,000 (\$625,000 in Hawaii), please see High Balance FHA Streamline information below.
- Cash back to borrower is not allowed with the exception of minor adjustments at closing provided the amount does not exceed \$500.

- If assets are needed to close, the underwriter must verify and document assets.
- If existing subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125%. For streamlines without an appraisal, the CLTV is based on the original appraised value of the property.
- Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the underwriter 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.
- Non-owner/Second homes ARM loans are not eligible for the streamline refinance program.
- As with all FHA products, the maximum base loan amount prior to the new upfront MIP, cannot exceed the applicable county loan limit.
- Streamline guidelines can be found in Chapter 6, Section C of the 4155.1
- Product Codes: F-F30S, F-F15S, F-A3TS, F-A5TS, F-F30J9S, F-A3TJS, and F-A5TJS

FHA Streamline Program on High Balance Loans

For FHA Streamline Refinance loan amounts over \$417,000 (\$625,000 in Hawaii) in addition to the standard FHA streamline guidelines, the following applies:

- The loan must be a 30 year fixed rate, 3/1 or 5/1 ARM.
- Product Codes are F-F30J9S, F-A3TJS, and F-A5TJS.
- The maximum CLTV is capped at the maximum LTV (Max LTV=Max CLTV).
- A full credit report is required. The credit report is only used to validate the credit score on the FHA Streamline transactions; however the underwriter should analyze the credit report for any indications of possible financial distress or occupancy concerns. This analysis may include any derogatory reporting or significant amount of revolving accounts with high balances, etc.
- Minimum FICO score of 680.
- As with all FHA products, the maximum base loan amount prior to the new upfront MIP, cannot exceed the applicable county loan limit.

Net Tangible Benefit

- The new total mortgage payment (PITI) must decrease by the greater of \$50 or 5%. In all instances the P&I must decrease. This requirement is applicable when refinancing from a fixed rate to a fixed rate or from an ARM to an ARM.
- 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 insurance, HOA fees, and subordinate liens).
 - Refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage

Seasoning

- A minimum of 6 months payments (non credit qualifying streamline or credit qualifying) must have been made on the underlying loan.

Employment Income

- Employment must be verified at underwriting and again prior to funding. Self-employment can be verified by any third party source such as CPA letter, copy of business license, etc. Income is not required. 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 application. A Verbal VOE at closing must be completed as well per SNMC policy.
- SNMC will require documentation to support that certification.

Income Type	Documentation Requirements
Salaried/W-2 Wage Earner	Verbal VOE
Self-Employment Income	Verification of SE applicant’s business

- If the completed loan application indicates income is from an **“other income”** 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 all inclusive)	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 administer
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
SS/Ret/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

Mortgage Calculation

- For streamline refinance transactions WITHOUT an appraisal, the CLTV is based on the original appraised value of the property (in FHA Connection / Refinance Authorization)
- For streamline refinance transactions WITH an appraisal, the CLTV is based on the new appraised value.
- In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties or secondary residences are **not** eligible for streamline refinancing to ARMs.
- A non-credit qualifying, fixed rate streamline can be done for a non-owner occupied property (loan amount cannot include closing costs. See worksheet posted in section 12 of Credit Policy)

Revised Streamline Refinance Transaction **WITHOUT** an appraisal

NOTE: The maximum insurable mortgage cannot exceed:

- The outstanding principal balance (to include up to 30 days of interest) minus the applicable refund of the UFMIP, **plus**
- The new UFMIP that will be charged on the refinance.
- Closing costs and pre-pays cannot be added into the loan amount.

All FHA Streamline Refinance loans that are submitted without an appraisal must have documentation to verify the property is not a manufactured/mobile home and documentation verifying the property is not located in a federally declared disaster area. If property is located in a federally declared disaster area within the past 12 months, SNMC requires an exterior inspection to be performed by an FHA Approved Inspector.

The information regarding manufactured/mobile home, can be obtained from several sources such as RealQuest and Zillow.com; detailed instruction is located in UW Memo 37.2009

Revised Streamline Transaction WITH an Appraisal

The maximum insurable mortgage is the **lower** of:

- The outstanding principal balance (to include up to 30 days of interest) minus the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charged on the refinance, **or**

- 97.75% of the appraised value of the property plus the new UFMIP that will be charged on the refinance.

Please review Mortgagee Letter 2009-32 for additional information on streamline refinance transactions. UW Memo 32.2009

Permissible Streamline Refinance Transactions:

- **ARM to an ARM.** An ARM, either a one year or a Hybrid may be refinanced to another ARM, either a one year or a Hybrid provided that an immediate payment reduction occurs (per SNMC guidelines) **and** the interest rate of the new mortgage does not exceed the maximum interest rate of the old mortgage being refinanced. ARM to ARM refinances may be transacted with or without an appraisal. An ARM may be used only for refinancing principal residences.
- **ARM to Fixed Rate.** An ARM may be refinanced to a fixed rate mortgage, with or without an appraisal, provided that the interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the ARM. A Hybrid ARM may be streamline refinanced to a fixed rate mortgage with or without appraisal provided that the payment will not increase by more than 20 percent. (Mortgagee Letter 2005-43)
- **Fixed Rate to ARM.** Fixed rate mortgages may be refinanced to a one year ARM with or without an appraisal provided that the interest rate of the new mortgage is at least 2 percentage points below the interest rate of the current mortgage.
- **Fixed Rate to Hybrid ARM.** Fixed rate to Hybrid ARM need only result in an immediate payment reduction (Mortgagee Letter 2004-28). SNMC policy is total mortgage payment must decrease by the greater of 5% or \$50.

As with all loans, SNMC needs to have the credit report pulled through E3 or reissued in our name. Currently, the reissued credit is pulled through DU. This process does not work on FHA streamlines because we do not run DU. Therefore, the only option has been to pull our own credit report with the required information.

In order to accommodate FHA Streamlines, we can now use the E3 reissue option with Kroll credit reports.

1. The branch needs to make sure they have access to Kroll in the credit drop down
2. Under Order Type, select "reissue"
3. Next to the borrower's name, select "Individual, Borrower" as Credit Request Type
4. Enter the reference number in the box next to the Credit Request Type
5. Press Submit Order

The information that was located on the broker's credit report (mortgage rating and FICO only) has now been reissued in our name and can be included in the loan file. Our name will show in the top left corner.

6.1-HH Subordinate Financing

Allowed according to FHA guidelines

6.1-HH1 Government Agencies

Federal, state, and local government agencies may provide secondary financing for the borrower's entire cash investment. The second lien itself must be made or held by the eligible governmental body. It is the underwriter's responsibility to document the eligibility of the governmental body.

6.1-HH2 Non-Profit Agencies

Non-profit agencies that are considered instrumentalities of government may provide secondary financing for the borrower's entire cash investment. The appropriate HIC is responsible for approving the nonprofit agency, as well as determining if it can be considered an instrumentality of government. If the non-profit agency is **not** considered an instrumentality of government, the borrower must make their required cash investment from another acceptable source. It is the underwriter's responsibility to document the approval of the non-profit agency as well as their status as an instrumentality of governments. Lists from the appropriate HOC website should be printed and included in the loan file to document both items.

Additional information on FHA regulations for secondary financing can be found in 4155.1 Chapter 5, Section C: Borrower Secondary Financing.

6.1-II CLTV

The maximum combined loan-to-value (CLTV) on FHA rate/term refinance transactions with new subordinate financing is limited to 100%.

New subordinate financing, for this guideline is defined as:

- Secondary financing that is originated concurrently or within 6 months prior to the closing date of the subject FHA refinance transaction, and
- Is not part of the original purchase transaction

Secondary financing guidelines for FHA loans with existing subordinate financing will be subject to a maximum CLTV of 125% and a minimum FICO of 660.

Secondary financing guidelines for FHA 85% LTV Cash out refinances remains the same: Subordinate financing may remain in place, but subordinate to the FHA first mortgage, provided the borrower qualifies. 85% max CLTV. No new subordinate financing allowed (originated concurrently).

The maximum CLTV for a mortgage originated with an approved community second or DPA is the lesser of 105% or the acquisition costs. Acquisition cost is defined as the sales price plus allowable borrower-paid closing costs, discount points, repair, and rehabilitation costs.

6.1-JJ Temporary Buydowns

Temporary interest-rate buydowns are designed to reduce the borrower's interest rate and monthly payment during the early years of the mortgage.

- 2-1 temporary buydowns allowed on fixed-rate purchases only
- Borrower must qualify at the note rate
- Allowed on 203(b) and 234(c) loans only
- Available on 30 year terms only
- The original buydown agreement, signed by the borrower and the provider of the funds, must accompany the loan application
- Use the F-F30BD code and pricing
- If the buydown will not be lender paid, add back 2.375 to the F-F30BD base price

6.1-KK \$100 DOWN HUD REPO PROGRAM

The FHA \$100 down payment HUD Repo program is a purchase-money incentive offered in limited geographic areas to purchasers of a home owned by the Department of Housing and Urban Development. Buyers are only required to make a \$100 down payment. The loans are underwritten as normal FHA 203(b) or 234(c) loans. This program is different from the Good Neighbor Next Door HUD program. These additional guidelines should be followed:

- The purchase contract must have a \$100 down addendum signed and approved by HUD. Any additional guidelines listed in the purchase contract should be observed.
- Must use the appraiser from the M&M Contractor – cannot order a new one unless that one is over 6 months old
- Case number should be ordered as an REO case
- Spot condo approvals are not allowed. Condo should be FHA approved
- Temporary buydowns are not allowed
- All other HUD repo guidelines should be followed

6.1-LL 203h Disaster Financing

Allowed. For guidelines, please refer to Mortgagee Letters: 06-01, 05-46, 05-45, 05-33, 05-32, 04-32, and 01-07.

6.1-MM Other

FHA cash out transactions not allowed in Texas