CMG FHA Guidelines: Wholesale & Select Partner

Loan Matrix – LTV/CLTV & Minimum Credit Score

Standard Loan Amounts & High Balance FHA Loans					
	Purchase	**Cash Out**	**No Cash Out Refinances**		
			Rate and Term	**Simple Refinance**	**Streamline Refinance**
FICO	**600** Standard loan amounts [2] **620** High Balance [4]	**600** Standard loan amounts [2] **620** High Balance [4]	**600** Standard loan amounts [2] **620** High Balance [4]	**600** Standard loan amounts [2] **620** High Balance [4]	**600** Standard loan amounts [2] **620** High Balance [4]
LTV	96.50% [5]	80% Case numbers on and after 9/1/2019 (85% prior to)	97.75%[3]	97.75%[3]	N/A[3]
CLTV	96.50% [1]		97.75%	97.75%	none

1. 110% CLTV permitted with the use of eligible DPA, not to exceed 100% "Cost to Acquire"
2. Credit scores from 600-619 permitted subject to meeting all the following requirements:
   - TOTAL Scorecard analysis required (except Streamlines). Manual downgrades are allowed with Approve/eligible findings. "Refer" findings are permitted.
   - Non-traditional credit is not permitted except as outline in Credit Depth Policy.
   - SFR/Cond/PUD only (no multi units)
   - Standard loan amounts only. High balance loan amounts not permitted
   - Cash out transactions require a second signature and the following: Max DTI 43%, No open collections/judgments, housing payment history required 0x30x24.
   - For all transactions, borrowers must have a verifiable housing history or must demonstrate a regular savings pattern which demonstrates their financial maturity or require a CMG Level II second signature
   - Qualifying Ratios: Up to 31/43% no comp factors required, CMG requires that both AUS approved and manually underwritten loans meet HUD's Acceptable Compensating Factors based on credit score and qualifying ratio.

     Note: HUD Compensating factors can be located in Part F-8 – Manual Underwriting and full details are in HUD Handbook 4000.1 Chapter 5.
3. FHA Maximum Loan Amount Calculation applies. HUD approved secondary residences are subject to additional restrictions.
4. All High Balance Loans: Maximum 0x30x12 mortgage history and must score Approve/Eligible (Streamlines okay to be manually underwritten: HPH applies)
5. Refer to CMG's FHA 203(h) Disaster Relief Guideline Addendum for transactions eligible up to 100% LTV.

Program Details, Highlights and Overlays

All CMG Financial Guidelines will follow FHA/Ginnie Mae Guidelines (the HUD Handbook) in addition to CMG Financial overlays, when applicable.

Topic	Details / Highlights / Overlays
Eligible Terms	Fixed: 15, 20, 25 and 30 year; ARM: 5/1 Arm, Margin 2%, Caps 1/1/5, Index based 1 Yr T-Bill (per WSJ) Good Neighbor Next Door eligible for 15 & 30 year terms only. HUD REO w/ $100 Down eligible for 15 & 30 year terms only. Note: Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage. Refer to Part Y – Product Codes, Terms, ARM Information for additional information.
Eligible Transactions	Purchase, Rate & Term Refinance, Cash-out Refinance, Simple Refinance and Streamline Refinances permitted. A Net Tangible Benefit Worksheet must be completed on all refinance transactions. Section 203(h) transactions eligible as noted in CMG's FHA 203(h) Disaster Relief Guideline Addendum. HUD REO Transactions permitted, including $100 Down, HUD Repo with Repair Escrow, and Good Neighbor Next Door. Refer to Part Q – Transaction Types – Purchase transactions for additional details based on transaction type.
Escrows	Tax and Insurance escrows are required on all FHA loans. Effective on loans closed on or after January 1, 2016 that require flood insurance: the premiums related to the flood insurance must be escrowed - escrows for these premiums may not be waived, regardless of LTV. If flood insurance premiums are paid by a condominium association, homeowner's association or other group, no escrow is required. Note: CMG does not permit escrow for earthquake insurance.
Loan Amount Limits	Minimum Loan Amount: None. Maximum Loan Amount: $1,000,000 In addition, maximum loan limits vary by unit county and by State and County as determined by HUD: https://entp.hud.gov/idapp/html/hicostlook.cfm With the exception of Streamlines without appraisals, the base loan amount (loan amount prior to UFMIP) may not exceed the limits published by HUD.
Non-Occupant Co-Borrower(s) / Cosigner	For loans where a non-occupying borrower / cosigner is utilized the overall transaction ratios should generally not exceed 31/43 however, higher ratios may be considered if the overall financial strength of the non-occupying coborrower / cosigner can be established. Cash-out is not permitted. Note: Non-occupant co-borrower / cosigner may not be an interested party to the sales transactions, such as property seller, builder, or real estate broker. Refer to Part A-8 – Non Occupying Borrowers & Cosigners for additional requirements, including LTV limitations.
Number of Borrowers	There can be no more than 4 borrowers per loan.
Occupancy	Purchase, Rate/Term & Cash out: Owner Occupied, Primary Residence and HUD Approved Secondary Residences only. Simple Refinance is only permissible for owner-occupied Principal or HUD-approved Secondary Residences. Streamline Refinances permitted for owner occupied, HUD Approved Secondary Residences, and non owner occupied transactions. Refer to Part C – Occupancy for additional details.

Topic	Details / Highlights / Overlays
Property Types	1-4 Family Dwellings, PUD, Townhomes, Row homes, Modular, HUD Approved Condominiums. See "Collateral" below for Ineligible Property Types. Leasehold estates must meet all FHA/HUD requirements. Manufactured Homes are eligible as noted in the Manufactured Home Guideline Addendum.
Qualifying Ratios	AUS approved loans max DTI is per AUS. Level I exception is required for all FHA Transactions with a qualifying credit score of less than 660 and ratios exceeding 37/47 (BOTH ratios exceed the numbers, not just one; i.e, a 39/50 requires Level 1 review, whereas a 39/43 does not) Manual underwrites must meet all FHA requirements. (References: Chapter 5 of HUD Handbook 4000.1). Also, refer to Part F-8 – Credit Analysis – Manual Downgrades/Manual Underwriting.
Refinance - Streamline	Non credit qualifying permitted; however, **a Verbal Verification of Employment (VVOE) must be completed within ten (10) days prior to the funding date.** Refer to: Part Q-6 – Transactions – Refinances – Streamlines.
Refinance – Cash Out	• Refer to FICO/LTV Matrix for LTV restrictions and CMG minimum credit score requirements. • 0x30 mortgage lates in the last 12 months. • There is no limit to the maximum cash-out permitted. • The Property securing the cash-out refinance must have been owned and occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment. **Exception:** In the case of inheritance, a Borrower is not required to occupy the Property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject Property as an Investment Property at any point since inheritance of the Property. If the Borrower rents the Property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the Property as a Principal Residence for at least 12 months. • The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment. Refer to: Part Q-3 – Refinance – Cash Out.
Secondary & Subordinate Financing / Down Payment Assistance	• CMG does not permit new subordinate financing with any refinance transaction. • For Purchase transactions, maximum CLTV is 100% of the Cost to Acquire if the secondary financing is from a Government Agency/HUD-approved Non-Profit considered in instrumentality of government. CMG will permit up to a **max 110% CLTV** based or lessor of purchase price/appraised value for DAP's eligible be used to cover the borrowers minimum 3.50% down payment requirement. The cost to acquire is defined as Sales Price + Borrower Paid Closing Costs + Discount Points + Pre-paid Expenses. • Refer to Part R: Secondary Financing for additional guidance.
Underwriting	FHA Total Scorecard/AUS must be run; with the exception of Streamline Refinances (manual underwriting is required for all streamlines). • High Balance Loan Amounts: AUS Accept Rating required; Refers are not permitted. Manual downgrades due to FHA / TOTAL Scorecard requirements are eligible. • Standard Loan Amounts: Generally, Refer/Eligible through TOTAL scorecard is permitted for BK, foreclosure, or erroneous information only. Manual downgrades due to FHA / TOTAL Scorecard requirements are eligible. For additional guidance on Manual Underwriting, refer to Part F-8 – Credit Analysis – Manual Downgrades/Manual Underwriting.

Category	Topic	Details / Highlights / Overlays
Program	**Ineligible Features / Programs**	• Military Impacted Areas • Texas A6 loans • Rebuttable Presumption loans are not eligible • Section 32 loans are not eligible • Temporary Buydowns are not permitted • Section 184 • FHA Back To Work – Extenuating Circumstances • MCC • 203K Loans • Energy Efficient Mortgages (EEM) • Negative Equity Program • Weatherization financing (II.A.8.i) • Solar & Wind Technologies Financing (II.A.8.j) • Loans to non-profit organizations • Indian Reservations • HOPE for Homeowners • Construction to Permanent (CTP) Financing where the original note is modified is not eligible (II.A.8.g) • Non-Arms Length Transactions are generally not allowed; to be eligible transaction must meet FHA guidelines and must receive exception approval. Bailouts not permitted. • Dual roles on an FHA transaction are not permitted (An originator cannot have another real estate related position for any loan) • Properties with individual water purification systems are not eligible
	First Time Homebuyers	Allowed.
	Good Neighbor Next Door (GNND)	Permitted. Refer to Part Q-1 – Purchases – HUD REOs - GNND.
	Maximum # of Financed Properties	For FHA Financing the borrower may generally only have one FHA loan. Multiple loans to FHA Borrowers not permitted unless eligible per FHA Handbook 4000.1. Refer to section "B-2 – Multiple Financed Properties"
	Multiple Mortgages to Same Borrower	Borrowers are limited to three (3) loans or one million dollars ($1,000,000) total in loans funded/purchased by CMG, whichever is less. Jumbo loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG. Refer to "Part B-1 – Multiple Loans to One Borrower".
	Power of Attorney	CMG will not permit HUD exceptions for closing documents signed by an attorney-in-fact who is connected to the transaction. Refer to Section A-9 for additional guidance and requirements.
Assets	Ineligible Asset Types	• 1031 exchanges are not permitted and are ineligible as an asset type. • Custodial Accounts for Minors; accounts that are in a minor's name where the borrower is the only custodian of the funds are not eligible for closing costs, reserves or downpayment. • Pooled Funds • Mattress Money / Cash on Hand • Sweat Equity • Trade Equity Refer to Part H – Asset Assessment for additional information on eligible assets.

Category	Topic	Details / Highlights / Overlays
Assets	Verification of Deposits	Not permitted as standalone documentation – must be accompanied by computer printout or other statements directly from the banking institution. For additional requirements refer to Part D - Underwriting Documentation.
Collateral	Ineligible Property Types	• Co-ops • Bed and Breakfast Properties • Hobby Farms • Live/Work Units • Section 8 properties • Properties with manufactured on site as either an ADU or being used as storage • Properties where farm or agricultural income from the subject property is claimed on borrowers tax returns • Properties encumbered with private transfer fee covenants • Loans on properties significantly uncommon for the area and lacking comparable sales • Refer to "J-2 – Ineligible Collateral"
	Appraiser Requirements	Appraisal must be completed by an FHA Roster appraiser; a copy of the appraiser's license must be included in all funded loan files. The transfer of an FHA appraisal from another lender is permitted; as a standard, an appraisal is only good for 1 closed and funded loan. Re-use of an appraisal from a previously closed transaction is not permitted. Refer to "Part J – Property Eligibility"
	Condos	With the exception of FHA Streamlines, condominiums must be HUD approved and not expired at time of case number issuance: https://entp.hud.gov/idapp/html/condlook.cfm Note: CMG Financial will not process a DELRAP.
	Properties Listed for Sale -	R/T Refinance: Must be off the market at least one day prior to application. Cash Out Refinance: Must be off the market at least six months prior to the application.
	Deed Restricted Properties	All deed restricted properties (including Age Restricted properties) must be reviewed and receive prior approval from CMG Corporate Credit. Refer to Part J-9 – Properties Subject to Age Restrictions.
	Property "Flips"	Standard FHA 90 day rule applies. Refer to Part Q-1 – Additional Chain of Title Considerations for Purchase Transactions.
	Property Condition	Property condition of C5 or C6 are not eligible. All repairs affecting safety, livability, or habitability must be completed prior to closing.
	Re-negotiated purchase agreements	Generally renegotiated sales contracts are not allowed, however, minor adjustments due to condition or other relevant factors are permitted. Increasing of sales price after the appraisal is completed to provide seller credit is not permitted.
	Sales Incentive	The maximum allowable sales incentive (commission, finder's fee, etc.) is limited to 8% of the sales price. Refer to Part S for more information on IPCs, Sales Concessions/Financing Concessions. For HUD REO sales incentives see Part Q – HUD REOs

Category	Topic	Details / Highlights / Overlays
Credit (Refer to Part F – Credit Analysis for more information)	Derogatory Credit	All loans are subject to standard FHA requirements and waiting periods as noted below: • BK Chapter 7 must be discharged 24 months preceding the case number assignment date. Exceptions for extenuating circumstances permitted but require Corporate Credit Approval. • BK Chapter 13 must have been entered at least 12 months preceding the case number assignment date and be paid as agreed. In addition, plan must be paid out and discharged prior to closing; loan proceeds cannot be used to payoff a BK balance. • Foreclosures must be settled a minimum of 36 months preceding the case number assignment date. Exceptions for extenuating circumstances permitted but require Corporate Credit Approval. Refer to Derogatory Credit Matrix for applicable waiting periods. Refer to Part F: Credit Analysis for additional credit requirements. Notes: FHA's Back to Work – Extenuating Circumstances is not permitted.
	Credit Score / History	• Minimum score requirements are described in the FICO/LTV Matrix above. All borrowers must meet minimum credit score. • Refer to Credit Depth section below & Part F – Credit Analysis for additional requirements. • Refer to Part F6 – Housing Payment History for direction on mortgage/rental payment history requirements. Note: Mortgage only credit reports are acceptable for non credit qualifying FHA Streamline refinances. Credit and capacity analysis is not required for non credit qualifying Streamline refinances.
	Credit Depth	Unless AUS approved, a minimum of two credit scores to be established for each Borrower; AUS approved loans require a minimum of one valid credit score to be established for each borrower. In order for credit score to be considered valid it must be generated based on sufficient credit. The definition of sufficient credit can vary by borrower. Generally, sufficient credit is defined as at least 3 valid tradelines showing a 24 month history and a debt account balance that demonstrates the borrower's ability to manage debt properly. • It is not necessary that all 3 accounts are currently active/open but that the overall credit profile of the borrower demonstrates the borrower's ability to manage a reasonable debt load. Caution should be exercised when the borrower has no open accounts, however, when a borrower can demonstrate a history of managing reasonable debt load in the recent past, the credit depth requirement is met. • Authorized user accounts, deferred student loans and secured credit card accounts are not applicable and should be disregarded. Alternative credit by itself is not acceptable, however, if a borrower's situation is such that through either housing payment history (0x30x12 documented) or through an established regular savings pattern where the borrower is clearly managing his finances to save for a new home, it can be established that the borrower is demonstrating financial maturity, one alternative credit account may be utilized to meet the requirements above.
	Credit Inquiries	All credit inquiries within 120 days of the credit report are required to be addressed by the customer.
	Paying Down/Off Debt to Qualify	CMG Aligns with HUD Requirements, Refer to Paydown/Payoff of Debt in Part I-1

Category	Topic	Details / Highlights / Overlays
	Prior Mortgage Credit Reject (MCR)	CMG does not accept loan files with a documented MCR.
Income (Refer to Part G: Evaluating Income for more information)	4506T & Income Validation	• A fully complete and signed 4506T for each borrower is required. Refer to CMG's Income Validation Policy for details regarding tax transcripts.
	Annuity/Retirement/ Distribution Income	• Any distribution that is being used to qualify must be established prior to the application date • Copy of the distribution schedule must be provided • Copy of at least one month's distribution check must be provided • Assets being depleted due to distribution cannot be used for reserves
	Projected Income	Loans involving a new job for the borrower that will begin after closing may be eligible subject to all of the following requirements: • The subject transaction is for the purchase of a 1-unit primary residence; • borrower must have a minimum 640 qualifying credit score; • maximum DTI is 50%; • the Borrower's employment offer must be non-contingent and the non- contingent offer letter must be retained in the loan file; • the Borrower's written acceptance of the employment offer must be retained in the loan file; • the Expected/Projected income cannot be derived from a family-owned business; • the Borrower must have cash reserves to support the mortgage payment and any other obligations during the employment gap plus and additional one month's reserves of PITIA; • the time frame between the Note Date and the start of employment (the employment gap) must not exceed 60 days (Income must be guaranteed to begin within 60 Days of mortgage closing); • the income is calculated in accordance with the standards for the type of income being received; • a post-closing copy of the borrower's first paystub / proof of receipt of income must be obtained and verified to support income used to qualify and retained in the loan file.
	Salaried Borrowers	All HUD Handbook requirements must be met.

Category	Topic	Details / Highlights / Overlays
	Self Employed Borrowers	• A borrower with a 25 percent or greater ownership interest in a business is considered self-employed for FHA mortgage loan underwriting purposes. Two years of personal and business tax returns with all applicable schedules are required. • FHA requires that the Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. The time period is measured from the end of the calendar/fiscal year. A balance sheet is not required for self-employed Borrowers filing Schedule C income. There is no change to the FHA requirement that if income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return obtained from the IRS is required. • For Accept transactions, documentation relief on business tax returns is permitted if all AUS conditions are met. • Business assets are permitted for cash to close and reserves if the borrower is 100% owner of the company and it is determined by the UW that the withdrawal of funds will not impact the borrowers business. A CPA letter verifying no impact to the business is acceptable; however, if no CPA letter is available the UW will review the tax returns of the business to determine any impact. Any significant withdrawal should be considered in relation to the overall strength of the borrower's company.

Related Guideline Addendums:

- CMG's FHA 203(h) Disaster Relief Guideline Addendum
- CMG's FHA/VA Manufactured Home Guideline Addendum
- Escrow Holdback Guideline Addendum

Part A – Borrower & Application

A-1 – Citizenship or Residency Status

Borrowers must be US Citizens or document their non-US Citizen status using the following guidelines:

Required Identification
All borrowers are required to have a valid driver's license, state issued identification or passport on all transactions.

Permanent Resident Alien
Individuals granted permanent residence status in the U.S. also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'. Permanent Resident Aliens must provide any of the following documents to validate acceptable status:

- Permanent Resident Card (USCIC form I-551)
  - May be issued as a conditional right to reside for individuals seeking residency through marriage to a US Citizen/ Permanent Resident Alien or based on a financial investment in a US business.
  - These cards have an expiration date and are valid for two years
  - At the end of two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
  - Cards due to expire within 90 days must be accompanied by a copy of the USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.

- Cards may be issued without conditions and are valid for 10 years.
- Cards that are due to expire within six months must be accompanied with a copy of the USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.

- Unexpired Foreign Passport
  - Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy.

All Non- U.S. Citizen Borrowers

- Non US Citizens must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service or INS) within the Department of Homeland Security, evidencing the person's legal residency status in the United States. http://www.uscis.gov/portal/site/uscis

Non-Permanent Resident Alien

Non-permanent resident aliens are individuals seeking temporary entry to the U.S. for a specific purpose, either business or pleasure. This group may include intra-company transferees, temporary workers/trainees, visitors for business or pleasure, students, etc. Various types of visa classification documentation will apply. Refer to the BCIS/INS for specifics at http://www.uscis.gov/portal/site/uscis

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

- the Property will be the Borrower's Principal Residence;
- the borrower has valid Social Security Number;
- the Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS;
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens; and
- All non-permanent resident aliens must provide evidence of an acceptable visa. Acceptable visas include but are not limited to E-1, H-1B, H-2B, H-3, L-1, G-series (if borrower does not have diplomatic immunity) and O-1. (Borrowers without an acceptable visa will be considered on a case by case basis only.)

The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the Lender may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained. Note: C08 status is not eligible.
All non-permanent resident aliens must have a minimum two-year history of credit and employment in the U.S. or another country.

Effective January 19, 2021, the Federal Housing Administration (FHA) is permitting individuals classified under the "Deferred Action for Childhood Arrivals" program (DACA) with the U.S. Citizenship & Immigration Service (USCIS) and are legally permitted to work in the U.S. are eligible to apply for mortgages backed by the FHA.

Note: CMG requires a valid visa and considers exceptions to borrowers without an eligible/valid visa on a case by case basis only.

A-2 – Eligible Borrowers

Social Security Number
All borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

Excluded Parties Search (LDP/SAM/CAIVRS)
CMG loans require confirmation that companies or individuals involved in the origination or underwriting of a mortgage transaction are not on the SAM Excluded Parties List, the HUD Limited Denial Participation (LDP), and NMLS, as applicable.

All borrowers must also pass a HUD Credit Alert Interactive Voice Response System (CAIVRS) check.

Refer to the CMG Policy for additional requirements: Exclusionary Lists CPS-1019-ALL

Note: The Mortgagee must check the "Yes" box on form HUD-92900-LT if the Borrower appears on either the LDP or SAM list.

A-3 – Ineligible Borrowers

- Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible.
- Applicants possessing diplomatic status are ineligible.
- Foreign Nationals are individuals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.
- Borrowers with Diplomatic Immunity
- Corporations/LLC's
- Foreign Nationals
- Non-Revocable *Inter vivos* Trust
- Partnerships

A-4 – Living Trust (Inter vivos Revocable Trust)

CMG aligns with HUD:

- Property Held in Living Trusts
  - The Mortgagee may originate a Mortgage for a living trust for a Property held by the living trust, provided the beneficiary of the living trust is a Cosigner and will occupy the Property as their Principal Residence, and the trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the Property.

- Living Trusts and Security Instruments
  - The name of the living trust must appear on the security instrument, such as the Mortgage, deed of trust, or security deed.
  - The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.
  - The name of the individual Borrower is not required to appear on the property deed or title.
  - The Mortgagee must obtain a copy of the trust documentation.

A-5 – Military Personnel Eligibility

Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service.

- The lender must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property.
- The lender must obtain the Borrower's intent to occupy the subject Property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.

Also, refer to Part G-9: Military Income, as applicable.

A-6 – Multiple FHA Loans

Refer to Part B: Property Ownership Restrictions

A-7 – Non Borrowing Spouse Considerations / Community Property States

Credit History – Non Borrowing Spouse

The Mortgagee must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be included in the liabilities. The credit report for the non-borrowing spouse is for the purpose of establishing debt only, and is not submitted to TOTAL Mortgage Scorecard for the purpose of credit evaluation. The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application. The credit report for the non-borrowing spouse may be traditional or non-traditional.

- **Collections:** TOTAL & Manual: Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law.
- **Disputed Derogatory Credit Accounts:**
  - **TOTAL:** Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer. **Manual:** Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.
- **Judgments:** Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

Debt – Non Borrowing Spouse:

- Except for obligations specifically excluded by state law, the debts of the non-purchasing spouse *must* be included in the borrower's qualifying ratios, if the borrower resides in a community property state, or property being insured is located in a community property state.
- The Mortgagee must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

SSA Verification – Non Borrowing Spouse:

- The lender must obtain the Borrower's authorization to verify the information needed to process the mortgage application. The lender must obtain a non-borrowing spouse's consent and authorization where necessary to verify specific information required to process the mortgage application, including the non-borrowing spouse's consent for the lender to verify their SSN with the Social Security Administration (SSA).
- The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

Title Considerations – Non Borrowing Spouse:

- If required by state law in order to perfect a valid and enforceable first lien, a non-purchasing spouse may be required to sign either the security instrument or documentation indicating that he/she is relinquishing all rights to the property. When the security instrument is executed for this reason, the non-purchasing spouse is

  not considered a borrower, and
  not required to sign the loan application.

Note: Non-applicant individuals can have an ownership interest in the property at the time of settlement without executing the mortgage note and security instrument, regardless of whether the transaction is a purchase or a refinance.

A-8 – Non Occupying Borrowers & Cosigners – Ownership, Obligation & LTV Limitations

Borrower and Co-Borrower Ownership and Obligation Requirements

- For loans where a non-occupying borrower / cosigner is utilized the overall transaction ratios should generally not exceed 31/43 however, higher ratios may be considered if the overall financial strength of the non occupying coborrower / cosigner can be established.
- Cash-out is not permitted.
- Non-occupant co-borrower / cosigner may not be an interested party to the sales transactions, such as property seller, builder, or real estate broker
- Borrower and Co-Borrower Ownership and Obligation Requirements
    - To be eligible, all occupying and non-occupying Borrowers and co-Borrowers must take title to the Property in their own name or a Living Trust at settlement, be obligated on the Note or credit instrument, and sign all security instruments.
    - In community property states, the Borrower's spouse is not required to be a Borrower or a Cosigner. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under State Law.
- Cosigner Requirements
    - Cosigners are liable for the debt and therefore, must sign the Note. Cosigners do not hold an ownership interest in the subject Property and therefore, do not sign the security instrument.
- Principal Residence in the United States
    - Non-occupying co-Borrowers or Cosigners must either be United States (U.S.) citizens or have a Principal Residence in the U.S.

Non-Occupying Borrower LTV Limitations

For Non-Occupying Borrower Transactions, the maximum LTV is 75 percent. The LTV can be increased to a maximum of 96.5 percent if the Borrowers are Family Members, provided the transaction does not involve:

- a Family Member selling to a Family Member who will be a non-occupying co-Borrower; or
- a transaction on a two- to four-unit Property.

Note: A cousin is not considered a family member.

A-9 – Power of Attorney

Application Forms: A Power of Attorney (POA) may not be used unless the Lender verifies and documents that all of the following requirements have been satisfied:

- For military personnel, a POA may only be used for one of the applications (initial or final), but not both:
  - when the service member is on overseas duty or on an unaccompanied tour;
  - when the Lender is unable to obtain the absent Borrower's signature on the application by mail or via fax; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
- For incapacitated Borrowers, a POA may only be used where:
  - a Borrower is incapacitated and unable to sign the mortgage application;
  - the incapacitated individual will occupy the Property to be insured, or the Property is being underwritten as an eligible Investment Property; and
  - the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
- For guidance on use of POA on closing documents refer to Power of Attorney - Closing. (below)

CMG General Requirements

- Only a special/limited Power Of Attorney (POA) that is specific to the subject loan transaction can be accepted.
- Durable/general POAs are allowed only for court-appointed guardians with unlimited powers over the ward's affairs and must be accompanied by appointing documents.
- Initial 1003 and all initial disclosures must be signed without POA. All closing documents may be signed by Attorney In Fact if POA is eligible and approved for use by underwriting.
- POAs are not permitted on cash-out refinance transactions.
- If no borrowers are executing loan documents in person in the presence of a notary, the attorney-in-fact must be either (a) the borrower's relative or (b) the borrower's attorney-at-law.
- The following guidance must be followed when evaluating a POA for eligibility:
  - The POA cannot be a party to the transaction except where the POA is the coborrower
  - All POAs need to be specific to the transaction with
    - Property address, Legal description, and Transaction type
  - The POA must be on the proper form and drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction.
  - The POA is in effect (the expiration date, if any, has not passed and the POA has not been revoked.
  - The POA clearly defines the agent
  - The POA grants to the agent, the authority to enter into a real estate transaction and mortgage real property
  - The POA does not contain any blanks
  - The principal is the same person as shown on the loan application
  - The agent's identity is verified and documented in the loan file
- The POA has been, or will be, recorded prior to the recording of the Deed of Trust/Mortgage. If recorded simultaneously, the POA must be recorded first.

Power of Attorney – Closing

- A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application* and the final Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*).
- Unless required by applicable state law, or as stated in the Exception below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:
  - Lender, or any employee or Affiliate;
  - loan originator, or employer or employee;
  - title insurance company providing the title insurance policy, the title agent closing the Mortgage, or any of their Affiliates; or
  - any real estate agent or any person affiliated with such real estate agent.
- CMG will not permit HUD exceptions for closing documents signed by an attorney-in-fact who is connected to the transaction.
- The Lender must obtain copies of the signed initial *URLA* and initial form HUD 92900-A signed by the Borrower or POA in accordance with Signature Requirements for all Application Forms.

Signature Requirements

Documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety; abbreviations are not acceptable (AIF, POA, etc.). Additionally, the same information should be typed on the documents. Examples include:

Signature / Document Typed	
Jane Doe by John Smith, Attorney-in-Fact Jane Doe by John Smith, Attorney-in-Fact	*Jane Doe by John Smith, her attorney in fact* Jane Doe by John Smith, her attorney in fact
Jane Doe by John Smith as attorney in fact Jane Doe by John Smith as attorney in fact	*Jane Doe by John Smith as her attorney in fact* Jane Doe by John Smith as her attorney in fact
Jane Doe by her attorney in fact John Smith Jane Doe by her attorney in fact John Smith	*Jane Doe by attorney in fact John Smith* Jane Doe by attorney in fact John Smith

A-10 – Sales Contract and Supporting Documentation

Sales Contract and Supporting Documentation:

- The Lender must not originate an insured Mortgage for the purchase of a Property if any provision of the sales contract violates FHA requirements.
- The Lender must ensure that (1) all purchasers listed on the sales contract are Borrowers, and (2) only Borrowers sign the sales contract.
- An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.
- The Family Member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

Part B – Property Ownership Restrictions

B-1 – Multiple Loans to One Borrower

CMG Limits: Borrowers are limited to one (1) FHA loan and two (2) other loans, or one million dollars ($1,000,000) total in loans funded/purchased by CMG. Jumbo loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG.

B-2 – Multiple Financed Properties

AUS findings are unable to determine the number of financed properties for a given borrower. It is incumbent upon the underwriter to determine the number of financed properties and apply additional standards where appropriate.

Multiple Loans.
A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is:

- relocating or has relocated for an employment-related reason; and
- establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence.

Under no circumstances are borrowers with more than ten (10) properties eligible for FHA financing with CMG.

Financed Properties Abroad
For borrowers who have financed properties abroad, the property AND mortgage payment must be counted in the total amount of financed properties.

Part C – Occupancy

Purchase, Rate/Term & Cash out: Owner Occupied, Primary Residence and HUD Approved Secondary Residences only.
Simple Refinance is only permissible for owner-occupied Principal or HUD-approved Secondary Residences.
Streamline Refinances permitted for owner occupied, HUD Approved Secondary Residences, and non owner occupied transactions.

Additional restrictions apply for Streamlines. Refer to Loan Matrix and Part Q-6 – Transaction Types – Refinance – Streamlines- Occupancy for more details.

C-1 – Primary Residence

A primary residence is a property that is physically occupied by at least one borrower as their primary residence. Residency is defined by the following criteria:

- Borrower occupies the property as his or her principal residence
- Borrower occupies the property for a majority part of the year
- Property location is convenient to the borrower's principal place of employment
- Property address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The borrower must occupy the property within 60 days of closing and continue to occupy the property for at least one year.

Also, refer to Part A: Military Personnel Eligibility.

C-2 – HUD-Approved Secondary Residence

Secondary Residence refers to a dwelling that a Borrower occupies in addition to their Principal Residence, but less than a majority of the calendar year. A Secondary Residence does not include a Vacation Home.

Secondary Residences are only permitted with written approval from the Jurisdictional HOC after a determination that:

- the Borrower has no other Secondary Residence;
- the Secondary Residence will not be a Vacation Home or be otherwise used primarily for recreational purposes;
- the commuting distance to the Borrower's workplace creates an undue hardship on the Borrower and there is no affordable rental housing meeting the Borrower's needs within 100 miles of the Borrower's workplace; and
- the maximum mortgage amount is 85 percent of the lesser of the appraised value or sales price.

Required Documentation

The Mortgagee must demonstrate the lack of affordable rental housing, and include:

- a satisfactory explanation of the need for a Secondary Residence and the lack of available rental housing; and
- written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

Part D – Underwriting Documentation

D-1 – Age of Documents

Information used to make the credit decision must be current.

- For purposes of counting Days, Day one is the Day after the effective or issue date of the document, whichever is later.
- The maximum age of documents at the Disbursement Date is:

Item:	Maximum Age at Closing:
Appraisal	120 Days*
Credit Report	120 Days
Income/Asset Documents	120 Days

*Appraisal Validity:

  - The 120 Day validity period for an appraisal may be extended for 30 Days at the option of the Lender if (1) the Lender approved the Borrower or HUD issued the Firm Commitment before the expiration of the original appraisal; or (2) the Borrower signed a valid sales contract prior to the expiration date of the appraisal.
  - **Appraisal Update:** An appraisal update must be performed before the initial appraisal, with no extension, has expired. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of 240 Days after the effective date of the initial appraisal report that is being updated.
- **Ordering an Appraisal Update:** The Mortgagee may only order an update if (1) it is a Mortgagee listed as an Intended User of the original appraisal or (2) it has received permission from the original client and the Appraiser. The Appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of the USPAP.
- The Lender may use an update of appraisal only if:
  - it is performed by the FHA Appraiser who performed the original appraisal, who is currently in good standing on the FHA Appraiser Roster;
  - the Property has not declined in value;
  - the building improvements that contribute value to the Property can be observed from the street or a public way;
  - the exterior inspection of the Property reveals no deficiencies or other significant changes;
  - the update of appraisal was ordered by the Mortgagee and completed by the Appraiser prior to the expiration of the initial 120-Day period; and
  - the original appraisal report was not previously updated.

D-2 – Acceptable Documents

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies. Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Handling of Documents:

- CMG must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through the equipment of unknown parties, or Interested Parties.
- CMG may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested Party, or the Borrower.

Information Sent to the Lender Electronically – including Fax Copies

- CMG must authenticate all documents received electronically by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. CMG must document the name and telephone number of the individual with whom the Lender verified the validity of the document.
- Fax copies in lieu of original documents or certified copies are acceptable subject to the following:
    - Verification transmitted directly from the loan processor to an employer, depository institution, Lender or landlord. The employer, depository institution, Lender or landlord must transmit the verification directly back to the loan processor.
    - Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable

Information Obtained via Internet

- CMG must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The Lender must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the CMG's visit to the URL and website.
- Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

Direct Written Verification

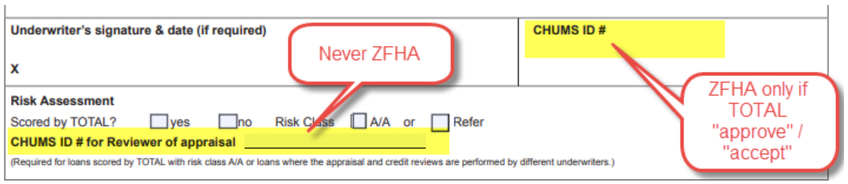
- Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between CMG and the employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.
- Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Third Party Verification

- Third Party Verification refers to a process through which a Borrower's employment, income, and asset information is verified directly by the Mortgagee with a borrower's employer or financial institution, through the services of a third party vendor.

Additional Documentation

- Tax returns, if required, must be true copies and the applicant must sign copies of filed returns.
- W-2 forms that are marked “Employer Copy” are not acceptable. Employers do not distribute their copies.
- If handwritten W-2 forms or paystubs are provided, tax returns must be obtained to substantiate the income.
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.
- 92900-LT: Completed, dated and signed by either the DE Underwriter or the AUS-user is required. Reminder:


Underwriter's signature & date (if required)
X
CHUMS ID #
Risk Assessment
Scored by TOTAL? ☐ yes ☐ no Risk Class ☐ A/A or ☐ Refer
CHUMS ID # for Reviewer of appraisal ______________
(Required for loans scored by TOTAL with risk class A/A or loans where the appraisal and credit reviews are performed by different underwriters.)

D-3 – Electronic Signatures

For FHA loan programs, Electronic Signatures are permitted on the Initial 1003 and Initial Disclosures.

Electronic Signatures are permitted on Real Estate Sales Contracts. CMG must ensure the Sales Contract is signed by the correct parties in all required places.

Note: The Amendatory Clause and Real Estate Certification are attachments to the Sales Contract so these documents may be electronically signed.

CMG Disclosures: The initial disclosures must be electronically signed via the IDS system. CMG contracts with IDS to deliver initial disclosures to the consumer with the option for Electronic Signatures in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), the Uniform Electronic Transactions Act (UETA), and the IRS’s IVES Participant Guidelines for the 4506-T

Refer to CMG’s Policy: Electronic Signatures

D-4 – Fraud Detection Tools

CMG employs risk management tools through selected vendors that provide information to assist with assessing the value risk and fraud potential in a loan transaction. These tools effectively screens the following components associated with mortgages:

- Income
- Employment
- Identity

- Occupancy
- Undisclosed debts
- Straw Borrowers

The tools must be performed on each loan file by the underwriter prior to issuing for QC review, providing an instant risk score and includes information detailing the risk scoring, reasoning and top fraud indicators associated with the characteristics of the loan. CMG will generate a report on all loan transactions. The underwriter is required to respond to all high risk messages.

Part E – Application

E-1 – Application

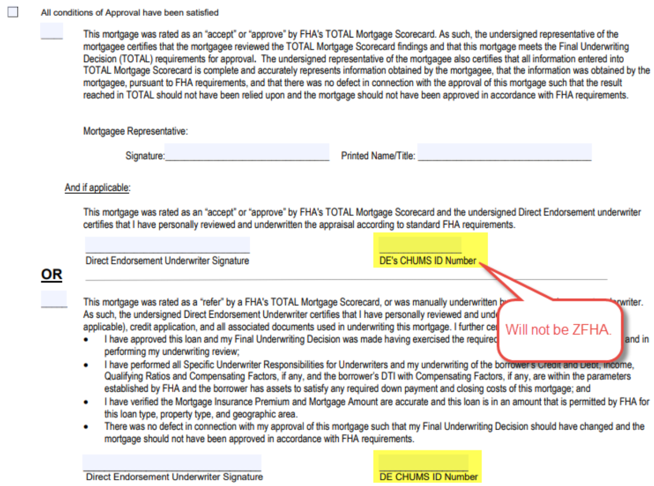
The originator should perform a preliminary review of the borrower's application to determine that the requested mortgage loan satisfies program mortgage eligibility criteria. The originator's level of review should be the same for each mortgage. This eligibility review should happen before underwriting begins based on predictive risk factors that are incorporated into the Program Matrices, specifically:

- LTV/CLTV/HCLTV
- Qualifying Credit Score
- Product Type
- Loan Purpose
- Occupancy
- Property Type, including number of units

Requirements

- All files must contain an initial and final application signed and dated by all borrowers as well as the loan officer. It must include the originator name, address, the loan officer's name, NMLS number and phone number. The application must be completed with all information from the credit report, asset documents, appraisal report, etc. and must include all HMDA and government monitoring information.
- All Borrowers must sign and date page two of the initial form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application,* and sign and date the complete final form HUD-92900-A. The application may not be signed by any party who will not be on the Note.
- Refer to POA section accordingly.

  Reminders:
  - Page 1 – signed and dated by Lender Rep at time of application.
  - Page 2 – signed and dated by borrower(s) at time of application. Includes Part IV: Borrower Consent for Social Security Administration to Verify Social Security Number - **t**he Mortgagee must obtain the Borrower's signature on Part IV to verify the Borrower's SSN with the SSA.
  - Page 3 – DE or DU/LP-User to complete, sign and date at time of final loan approval (Warning: Must be after the date of the appraisal review.) Reminder: For both TOTAL Scorecard "Approve/Accept" and "Refer" findings, next to the DE Signature line is a place for the DE's CHUMS ID Number for the appraisal review. Since this is attesting to the appraisal review, this will never be ZFHA and will always be the DE's CHUMS ID Number. Example:



☐ All conditions of Approval have been satisfied

____ This mortgage was rated as an "accept" or "approve" by FHA's TOTAL Mortgage Scorecard. As such, the undersigned representative of the mortgagee certifies that the mortgagee reviewed the TOTAL Mortgage Scorecard findings and that this mortgage meets the Final Underwriting Decision (TOTAL) requirements for approval. The undersigned representative of the mortgagee also certifies that all information entered into TOTAL Mortgage Scorecard is complete and accurately represents information obtained by the mortgagee, that the information was obtained by the mortgagee, pursuant to FHA requirements, and that there was no defect in connection with the approval of this mortgage such that the result reached in TOTAL should not have been relied upon and the mortgage should not have been approved in accordance with FHA requirements.

Mortgagee Representative:

Signature:______________________ Printed Name/Title: ______________________

And if applicable:

This mortgage was rated as an "accept" or "approve" by FHA's TOTAL Mortgage Scorecard and the undersigned Direct Endorsement underwriter certifies that I have personally reviewed and underwritten the appraisal according to standard FHA requirements.

______________________ Direct Endorsement Underwriter Signature | ______________ DE's CHUMS ID Number

OR

____ This mortgage was rated as a "refer" by a FHA's TOTAL Mortgage Scorecard, or was manually underwritten b… writer. As such, the undersigned Direct Endorsement Underwriter certifies that I have personally reviewed and und… applicable), credit application, and all associated documents used in underwriting this mortgage. I further ce…

- I have approved this loan and my Final Underwriting Decision was made having exercised the required … and in performing my underwriting review;
- I have performed all Specific Underwriter Responsibilities for Underwriters and my underwriting of the borrower's Credit and Debt, Income, Qualifying Ratios and Compensating Factors, if any, and the borrower's DTI with Compensating Factors, if any, are within the parameters established by FHA and the borrower has assets to satisfy any required down payment and closing costs of this mortgage; and
- I have verified the Mortgage Insurance Premium and Mortgage Amount are accurate and this loan is in an amount that is permitted by FHA for this loan type, property type, and geographic area.
- There was no defect in connection with my approval of this mortgage such that my Final Underwriting Decision should have changed and the mortgage should not have been approved in accordance with FHA requirements.

______________________ Direct Endorsement Underwriter Signature | ______________ DE CHUMS ID Number

- Page 4 – Borrower to sign and date at the time of closing.
- Page 4 – Lender to sign and date after the date of closing and prior to shipping.

NMLS

CMG will validate Nationwide Mortgage Licensing System (NLMS) IDs provided on all loans submitted against the NLMS Registry which can be accessed at the following link: http://www.nmlsconsumeraccess.org/

The validation will include the following:

- Originator ID is found on the NMLS Consumer Access Website
- Originator ID matches the Originator Name
- 1003 Application Date is not prior to Originator Authorization Date
- Originator is authorized to conduct business in the property state
- Originator ID matches the listed Company Originator ID
- Company Originator ID is found on the MLS Consumer Access Website
- Company Originator ID matches the company name
- Company is authorized to conduct business in the property state
- 1003 Application Date is not prior to the Company Authorization Date
- 1003 Includes the Originator Name, Originator ID, Company Name, and Company Originator ID

E-2 – Process to Add or Remove Borrowers

Adding Borrowers

Adding a borrower to a loan at any time during the loan process is acceptable. When this occurs a new initial disclosure package needs to be sent out to the new borrower. However, the seven-day waiting period required after the initial TIL does not apply when a borrower is added since a borrower that is primarily obligated on the loan already received the initial TIL when it was originally disclosed. File should be submitted back to underwriting for review of additional borrower's information.

Removing Borrowers

Removing a borrower from a loan is allowed only under the following circumstances:

- No credit decision has been made on the loan and borrower expresses desire to withdraw their name from the application
- Loan has been approved with both borrowers as submitted and one borrower expresses desire to withdraw their name from the application.

Under both of the above circumstances-- Request in writing from borrower should be placed in imaged file supporting their desire to withdraw their name from the application.

Detailed notes should also be placed in the system to eliminate any possible confusion with the file.

Removing a borrower from a loan is NOT allowed in the following scenarios

- Loan is declined by underwriting

In this scenario the loan would need to be declined in the system and a new application would need to be taken with a single borrower.

Underwriting should not be issuing loan approvals with any type of condition that states one borrower needs to be removed. The loan should be declined and have a new application submitted with only the one borrower.

Exceptions

Any exceptions to the above rules or scenarios not explained above should be submitted to compliance for review (ComplianceDepartment@cmgfi.com)

Part F – Credit Analysis

F-1 – Credit Report

The credit report will be pulled through a CMG approved vendor.

Refer to Part A-7 – Non Borrowing Spouse Considerations, as applicable.

F-2 – Credit Score

Unless AUS approved, a minimum of two credit scores to be established for each Borrower; AUS approved loans require a minimum of one valid credit score to be established for each borrower. The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Emperica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score".

The term "Qualifying Score" Score refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle/lower, then lowest" credit score selection methodology.

Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score using the "middle/lower" method:

- If there are three valid credit scores for a borrower, the middle score of the three scores is to be used.
- If there are three valid credit scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is to be used.
- **If there is only one valid score for a borrower, use that score.**

Qualifying Score Selection

After selecting the appropriate credit score for each borrower, the Qualifying Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Qualifying Score.
- When there is only one borrower, the selected credit score for that borrower is also the Qualifying Score.

F-3 – Credit History & Credit Depth

- A borrower's credit history is an account of how well the borrower has managed credit with both current and past accounts. An older, established history--even though the accounts may have zero balances-- will have a more positive impact on the borrower's credit profile than newly established accounts.

- A borrower who has relatively new credit history is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than if payments are not being made as agreed.

- Payment history is a significant factor in the evaluation of the borrower's credit. The Automated Underwriting System (AUS) considers the severity of the delinquencies, the length of time since the delinquencies, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies.

- When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing the cause of the adverse credit and that an acceptable credit history has been re-established.

- Refer to section F-9 Manual Underwriting – Satisfactory Credit Requirements for manually underwritten loans.

CMGs Credit Depth Policy as noted in the Details, Highlights, and Overlays section:

- Unless AUS approved, a minimum of two credit scores to be established for each Borrower; AUS approved loans require a minimum of one valid credit score to be established for each borrower. In order for credit score to be considered valid it must be generated based on sufficient credit. The definition of sufficient credit can vary by borrower. Generally, sufficient credit is defined as at least 3 valid tradelines showing a 24 month history and a debt account balance that demonstrates the borrower's ability to manage debt properly.
  - It is not necessary that all 3 accounts are currently active/open but that the overall credit profile of the borrower demonstrates the borrower's ability to manage a reasonable debt load. Caution should be exercised when the borrower has no open accounts, however, when a borrower can demonstrate a history of managing reasonable debt load in the recent past, the credit depth requirement is met.
  - Authorized user accounts, deferred student loans and secured credit card accounts are not applicable and should be disregarded.
- Alternative credit by itself is not acceptable, however, if a borrower's situation is such that through either housing payment history (0x30x12 documented) or through an established regular savings pattern where the borrower is clearly managing his finances to save for a new home, it can be established that the borrower is demonstrating financial maturity, one alternative credit account may be utilized to meet the requirements above

F-4 – Credit Bureau Analysis

The following aspects of the credit bureau should be reviewed for all loans in addition to following any automated underwriting system messaging.

Authorized User Accounts: Refer to Liability & Debts – Authorized User Accounts

Bankruptcy or Foreclosure

- Exceptions for extenuating circumstances permitted but require Corporate Credit Approval.
- Determine there is no disclosed or reported bankruptcy or foreclosure on the credit bureau report, the application, or any other documentation in the file.
  - BK Chapter 7 must be discharged 24 months preceding the case number assignment date.
  - BK Chapter 13 must have been entered at least 12 months preceding the case number assignment date and be paid as agreed. In addition, plan must be paid out and discharged prior to closing; loan proceeds cannot be used to payoff a BK balance.
  - Foreclosures must be settled a minimum of 36 months preceding the case number assignment date.
- For additional information on waiting periods refer to Derogatory Credit Matrix

Charge off Accounts

- The Lender must determine if Charge Off Accounts were a result of:
  - the Borrower's disregard for financial obligations;
  - the Borrower's inability to manage debt; or
  - extenuating circumstances.
- Required Documentation:
  - The Lender must document reasons for approving a Mortgage when the Borrower has any Charge Off Accounts.
  - The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding Charge Off Account. The explanation and supporting documentation must be consistent with other credit information in the file.
- **TOTAL:** For loans approved with TOTAL Scorecard, Charge Off Accounts do not need to be included in the Borrower's liabilities or debt. In addition, the lender is not required to obtain an explanation of collection accounts, Charge Off Accounts, accounts with late payments, Judgments or other derogatory information when the loan is approved with TOTAL Scorecard.

Collection Accounts

- If the credit reports used in the analysis show cumulative outstanding collection account balances of $2,000 or greater, the Mortgagee must:
  - verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;
  - verify that the Borrower has made payment arrangements with the creditor; or
  - if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio.
- Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law.
- Required documentation:
  - evidence of payment in full, if paid prior to settlement;
  - the payoff statement, if paid at settlement; or
  - the payment arrangement with creditor, if not paid prior to or at settlement.

If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required.

Consumer Credit Counseling

- A borrower in Consumer Credit Counseling is not an eligible borrower.

Credit Risk Score

- Insure the accuracy of the Credit Risk Score selected.

Fraud Alert

- All three national credit repositories have created automated messages to help identify possible fraudulent activity on a credit report. These alerts are commonly called HAWK ALERTS. All HAWK alerts must be adequately addressed and documented in the loan file.

Other Manual Underwriting Payment History Considerations

Types of Payment Histories (Manual)
The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.

Satisfactory Credit Minimum Handbook 4000.1 Requirements

- all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.
- no major derogatory credit on revolving accounts in the previous 12 months. Major derogatory credit on revolving accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

Payment History Requiring Additional Analysis
If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis. The Mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The Mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file. A Borrower with a credit history not meeting the satisfactory credit history above can only be considered eligible if the underwriter has documented the delinquency was related to extenuating circumstances. **Reminder:** Any loan qualifying under extenuating circumstances must be approved by corporate credit.

F-5 – Credit Inquiries/Attestation

- The borrower needs to address all inquiries to their credit within **120 days** of the credit pull date, unless a corresponding new tradeline is evidenced on the credit bureau. In the event any new debt was incurred since the original credit pull date, details of the new obligation must be obtained and the monthly payment must be included in the debt to income ratio. Acceptable documentation would include a recent statement or a credit supplement. CMG will continually monitor the borrower's credit throughout the loan process using Undisclosed Debt Verification (UDV) for new inquiries, new debt obligations, new derogatory credit, credit line increases (if over 75% has already been utilized), and new public records (tax liens, judgments, etc.).

F-6 – Housing Payment History

- The payment history of the borrower's housing obligations holds significant importance in evaluating credit. The lender must determine the borrower's payment history of housing obligations through either the credit report, verification of rent directly from the landlord (with no identity-of-interest with the borrower) or verification of mortgage directly from the mortgage servicer, or through canceled checks covering the most recent 12-month period.
- Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or Properties owned. A Mortgage Payment is considered delinquent if not paid within the month due.
- **Late Mortgage Payments for Purchase and No Cash-Out Refinance** The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:
  - three or more late payments of greater than 30 Days;
  - one or more late payments of 60 Days plus one or more 30-Day late payments; or
  - one payment greater than 90 Days late.
- **Cash-Out Refinance Transactions** The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, reflects:
  - a current delinquency; or
  - any delinquency within 12 months of the case number assignment date.
- A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

- **Undisclosed Mortgage Debt (TOTAL): When *an existing* debt or obligation that is secured by a Mortgage *but is* not listed on the credit report and not considered by the AUS is revealed during the application process, the Mortgagee must *obtain one of the following that reflects an acceptable mortgage payment history in accordance with Housing Obligations/Mortgage Payment History (TOTAL):***
  - a copy of the note and either:
    - a bank statement; or
    - canceled checks;
  - *a credit report supplement; or*
  - *a verification of Mortgage.*

For undisclosed mortgage debt, the Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- ***A current delinquency;***
- ***any delinquency within 12 months of the case number assignment date; or***
- ***more than two 30 Day late payments within 24 months of the case number assignment date.***

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments.

- For manually underwritten loans, see below and refer to sections F-4: Other Manual Underwriting Payment History Considerations & F-9: Manual Underwriting Satisfactory Credit Requirements.
- For Refinance transactions, refer to Part-Q – Transactions Types, as applicable.

Additional considerations for Payment History on Housing Obligations (Manual Underwriting)

Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or Properties owned.

A Mortgage Payment is considered delinquent if not paid within the month due.

A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the forbearance is terminated at or prior to closing.

Payment History on Housing Obligations (Manual)

The Mortgagee must determine the Borrower's Housing Obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Mortgage received directly from the Servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee must verify and document the previous 12 months' housing history. For Borrowers who indicate they are living rent-free, the Mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free. A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.

A Mortgage that was subject to mortgage payment forbearance must utilize the Mortgage Payment history in accordance with the Forbearance Plan for the time period of the forbearance in determining late housing payments.

Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

- For Refinance transactions, refer to Part-Q – Transactions Types, as applicable.

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Summary Mortgage Debt in Forbearance (FHA)– Subject or other REO – ML 2020-30

FHA has released Mortgagee Letter 2020-30 outlining FHA underwriting guidelines for borrowers with previous mortgage payment forbearance. With the exception of Streamline refinances, this FHA update does not impact CMG's stance for borrowers who have exited forbearance after continuing to make all payments as scheduled. Streamline Refinances are impacted as noted below. In addition, borrowers who fully reinstated but had missed payments during the forbearance period are subject to post forbearance payment requirements as noted below. This update does impact the current FHA pipeline and any FHA requirements that are more restrictive must be applied to existing case files. Full FHA requirements and Handbook updates are outlined in the Mortgagee Letter. Please see below for a summary.

Generally, a borrower who was granted Mortgage Payment Forbearance is eligible for a new FHA insured mortgage provided:

1. The borrower continued to make regularly scheduled payments and the Forbearance Plan is terminated, or
2. For Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least 12 consecutive monthly payments post forbearance; or
3. For Purchase and No Cash-Out refinances, the borrower has completed the Forbearance Plan and made at least three consecutive monthly payments post forbearance; or
4. For Streamlines
    - Non credit qualifying streamlines are permitted if borrower is out of forbearance at time of case number assignment and has made at least three consecutive monthly payments post forbearance.
    - Credit qualifying is required if either of the following apply:
        - the borrower is not out of forbearance at the time of case number assignment (even if payments made as agreed) OR
        - has made less than three consecutive monthly payments post forbearance (even if all made on time during the forbearance period);

      In addition, credit qualifying streamlines are only eligible provided the Borrower:
        - made all mortgage payments within the month due for the six months prior to forbearance; and
        - had no more than one 30-Day late payment for the previous six months.

    For all Streamline refinance transactions, the borrower has made at least six payments on the FHA-insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification). (Seasoning requirements already call for 6 payments; however, this is clarifying if the borrower has entered a modification))

Additional Key Notes:

- In all cases, the Forbearance Plan must be terminated and a copy of the Modification or Forbearance Plan must be provided.
    - However, a copy of the Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.
- Under the new requirements, payments made are referencing consecutive payments since completion of a mortgage forbearance plan.
    - For TOTAL Scorecard loans, if the required consecutive payments since the completion of the forbearance plan are met, the transaction does NOT need to be manually downgraded.
- Housing Obligation/Mortgage Payment History – For both TOTAL and manual underwrites:
    - A Borrower who was granted a Mortgage Payment Forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing. (Note: Although not considered delinquent or late, payment history requirements apply as outlined.)
    - A Mortgage that has been granted forbearance must utilize the payment history in accordance with the Forbearance Plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA insured mortgage, the Forbearance Plan must be terminated at or prior to closing.

F-7 – Non-Traditional Credit

- In the event the borrower does not have sufficient credit to produce a score, the loan will be deemed ineligible.
- Also, Refer to Part F-3 – Credit History & Credit Depth

F-8 – Manual Downgrades/Manual Underwriting

A manual underwrite can be performed either through a TOTAL Scorecard *Refer* decision or by a manual downgrade. A manual downgrade becomes necessary if additional information, not considered in the AUS/TOTAL decision, affects the overall insurability or eligibility of a mortgage otherwise rated as a TOTAL Accept.

Manual downgrades may be triggered by inaccuracies in credit reporting, eligibility issues, and for other reasons including the unlikely failure of TOTAL and/or AUS to recognize derogatory credit reference. Unless specifically permitted to continue to use TOTAL Accept, such as a favorable resolution of a credit issue, the loan must be downgraded to a *Refer* risk classification and manually underwritten.

The lender **must** downgrade and manually underwrite any Mortgage that received an Accept recommendation if:

- the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
- additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- the Mortgage Payment history, ***for any mortgage trade line reported on the credit report*** used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History;
- the Borrower has undisclosed mortgage ***debt that requires a downgrade; or***
- business income shows a greater than 20 percent decline over the analysis period.

All manually underwritten loans must meet HUD's requirements for manually underwritten loans. The requirements in Table F-8-A apply to all manually underwritten FHA loans. Compensating factors cited to support the underwriting decision must be recorded in the *Underwriter Comments* section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary* and documentation must be included in the case binder.

CMG aligns with HUD in regards to Compensating Factors for manually underwritten loans as long as CMG's Depth of Credit Policy and Minimum Credit Score Requirements are met.

See Table on next page.

Table F-8-A: Manual Underwriting Matrix

Lowest Minimum Decision Credit Score*	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
Insufficient Credit	N/A	N/A – CMG does not permit borrowers with Insufficient Credit.
600	31/43	No compensating factors required
600	37/47	One (1) of the following: • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). • New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months. • Residual Income (see HUD guidance on residual income requirements)
600	40/40	Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months).
600	40/50	Two (2) of the following: • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). • New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months. • Verified and documented significant additional income that is not considered effective income (i.e., part-time or seasonal income verified for more than one year but less than two years). • Residual Income (see HUD guidance on residual income requirements)
* Refer to loan matrix for eligibility of manually underwritten transactions. In all cases HUD requirements must be met.		

F-9 – Manual Underwriting – Satisfactory Credit Requirements

CMG aligns with HUD requirements. Refer to Chapter 5 of HUD Handbook 4000.1 for full requirements:

- The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months.
- The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.
- Major derogatory credit on revolving accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

F-10 – TOTAL Rescoring Requirements

- Mortgage must be rescored in TOTAL when:
  - Any data elements change; and/or
  - New borrower information becomes available.
- Mortgage file/credit report inconsistencies:
  - Must obtain a new credit report and rescore if underwriter identifies differences between mortgage file data and the first credit report.
- Rescoring tolerances:
  - Undisclosed or inaccurate debt: must rescore if the cumulative change in the amount of liabilities increases more than $100/mo.
  - Cash reserves: must rescore if less than 90% of previously scored amount.
  - Income: must rescore if income is less than 95% of previously scored amount.
  - T&I escrow: must rescore if total T&I results in more than a two point increase in total mortgage payment to income ratio (PTI).

Part G – Evaluating Income

G-1 – Evaluating Income

All loans must include an Income Worksheet, demonstrating the rationale behind the calculations used to determine the borrower's qualifying income. It must be determined that the borrower's income level can be reasonably expected to continue through at least the first three (3) years of the mortgage loan.

G-2 – Verbal Verification of Employment

Timing

- The VVOE or Electronic Verification of Employment must be obtained within 10 calendar days prior to the funding date for salaried income, and within 30 calendar days prior to the funding date for self-employment income.
  - *Electronic verification employment data must be current within 30 days of the date of verification.*

Salaried Borrowers

- The requirements for completing a VVOE for a Salaried Borrower are:
  - The employer's phone number and address must be obtained independently using directory assistance or the Internet.
  - The employer must be contacted verbally to confirm the borrower's current employment status.
  - The conversation with the employer must be documented and include the following:
    - Name and Title of the person at CMG who contacted the employer
    - Name and Title of the person who completed the verification for the employer
    - Employer name
    - Employer phone number
    - Source of the Employer's phone number
    - Dates of employment (Hire date to present)
  - If the borrower is currently on leave, ensure that is noted on the VVOE
    - Borrower's position or title
    - Date of the call

If the employer refuses to verify employment verbally over the phone, a written verification may be obtained to confirm the borrower's current employment status. The written verification must be dated within the same timeframe as for the VVOE requirement. The written verification must be sent directly to the Human Resources, Payroll or Accounting department of the employer and received back directly from the employer. Copies provided by any other source are not acceptable. The written verification must include the Name and Title of the person who completed the verification for the employer.

Note: CMG may utilize the Written Verification of Employment (WVOE) Fannie Mae Form 1005 for the written verification. Please refer to *Part D: Acceptable Documentation > Direct Written Verifications* for more information regarding using this form.

- If the employer uses a third party employment verification vendor, obtain a written verification directly from the vendor via electronic link, facsimile transmission or mail, and a legible copy must be retained in the loan file. The verification must be completed within the same timeframe as the VVOE requirement and include the borrower's current employment status with the following information:
  - Employer name
  - Employer phone number
  - Dates of employment (Hire date to present)
  - Borrower's position or title
  - Date of the information provided

Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database is no more than 30 days from the date the verification was pulled by the CMG employee.

Self-Employed Borrowers

- A Self-Employed borrower is defined as an individual that has twenty five percent (25%) or greater ownership of the business. An individual with less than 25% ownership is not considered self-employed.
- The VVOE for Self-Employed borrowers is a verification of the **existence** of the business through a third party source. There are three options for completing the VVOE:

  - **Option 1**: Verify a phone listing and address for the borrower's business using directory assistance or the Internet.

  Note: If the borrower's business is listed under his or her personal name instead of a business company name, Option 1 is not permitted since the existence of the *business* cannot be verified utilizing directory assistance or the Internet. CMG is required to verify the *business's* existence, not the borrower's name.

  - **Option 2**: Verify the business directly with a regulatory agency or the applicable licensing bureau by obtaining a copy of the Business License. The Business License must be in Good Standing/Active Status.

  - **Option 3**: Verify the business with a CPA. Obtain a CPA letter on letterhead that includes the following information:
    - CPA name
    - CPA business name, if applicable
    - CPA license number
    - CPA's signature
    - Date
    - Borrower's business name and address
    - Confirmation of the business's current active status and existence of the business for at least two years.

  Note: If the CPA has not prepared the borrower's business tax returns for two years or longer, it is permissible for the CPA to provide confirmation of the business's active status for as long as the CPA has prepared the taxes.

- For all options, CMG must document the name and address of the business, provide the date the information was verified, the source of the information obtained, and the Name and Title of the CMG employee who obtained the information.

1099 Employee / Independent Contractor

- If the borrower is an independent contractor, the borrower receives a 1099 instead of a W-2 to verify yearly income. If the borrower contracts with only one company, employment can be verified directly with that company using the steps outlined for Salaried Borrowers. If the borrower contracts with multiple companies, employment needs to be verified using a CPA Letter as outlined in Option 3 for self-employed Borrowers. If the borrower does not utilize a CPA, then the borrower needs to provide a minimum of two reference letters from the companies with which he or she contracts. CMG must validate the reference letters by contacting the companies to ensure the letters were provided by the companies listed.

Military

- Active Duty
    - If the borrower is an active member of the military, the Servicemembers Civil Relief Act (SCRA) website provides independent verification of service dates. The SCRA website is located at: https://www.dmdc.osd.mil/appj/scra/single_record.xhtml

- Civilian
    - If the borrower is a civilian that is employed by the Department of Defense, the VVOE is obtained from the borrower. The borrower generates the verification of employment directly from the Defense Civilian Personnel Data System (DCPDS) using the Self Service My Biz tool for Employment Verification. This My Biz tool sends a password-protected Employment Verification document to CMG electronically directly to the email address provided by the borrower. The borrower must provide the password to CMG in order to access the Employment Verification document. Further explanation is provided on the following Department of Defense website: http://www.cpms.osd.mil/Subpage/EmploymentVerification

Seasonal Employment

- If the borrower has seasonal employment resulting in the employer being unable to provide verification of current, active employment, then in lieu of the VVOE, CMG may obtain evidence of current receipt and amount of unemployment compensation and evidence that it is associated with the seasonal employment. The employer is also required to confirm that there is a reasonable expectation that the borrower will be rehired for the next season. CMG Operations must ensure the Underwriter is aware of the Seasonal Employment, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines.

Temporary Leave

- If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower “employed.” CMG Operations must ensure the Underwriter is aware of the Temporary Leave, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines

G-3 – Tax Transcript Policy

- A signed 4506T will be required on all applicants both prior to closing and at closing.
- Refer to CMG’s Income Validation Policy for full details on transcript requirements: Income Validation

G-4 – Stable Monthly Income

Establishing stable monthly income is based on the type of income received, the length of time received, and whether or not the income is likely to continue. Additionally, for salaried applicants, the length of time employed in current position and length of time employed in current profession are also considerations in determining stable income. When analyzing the probability of continued employment, the borrower’s past employment record, qualifications for the position, previous training and education, and employer’s confirmation of continued employment must be examined.

Analysis of Stability of Employment Income - Frequent Changes in Employment

- If the Borrower has changed jobs more than three times in the previous 12-month period, or has changed lines of work, the Lender must take additional steps to verify and document the stability of the Borrower's Employment Income. The Lender must obtain:
    - transcripts of training and education demonstrating qualification for a new position; or
    - employment documentation evidencing continual increases in income and/or benefits.

Length of Employment

- Generally at least a two-year history of receipt of income is required to deem the income as stable. A borrower who has an income history of less than 24 months may be considered if CMG is able to define and document the borrower's income as being stable, predicable, and likely to continue.
- If the borrower has less than a two year employment history, provide documentation showing borrower was in school or in a training program immediately prior to employment to use as effective income.
- For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if it can verify and document that:
    - the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
    - a two year work history prior to the absence from employment using standard or alternative employment verification.

Applies to TOTAL and manually underwritten loans.

Income Documentation

- Depending on the type of employment, various documentation requirements may be applied based on full documentation or alternative documentation methods, and considerations as to whether the borrower is salaried, commissioned or self-employed, etc.
- For Traditional Current Employment Documentation for employment related income: The Mortgagee must obtain one of the following to verify current employment:
    - The most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year to-date earnings, and a written Verification of Employment (VOE) covering two years; or
    - direct verification by a TPV vendor covering two years, subject to the following requirements:
        - the Borrower has authorized the Mortgagee to verify income and employment; and
        - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1).
- For Alternative Current Employment Documentation for employment related income: If using alternative documentation, the Mortgagee must:
    - obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
    - obtain copies of the original IRS W-2 forms from the previous two years; and
    - document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.
- For Past Employment Documentation for employment related income:
    - Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:
        - The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
        - Only base pay is used to qualify (no Overtime or Bonus Income).

- The Borrower executes IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years.

- If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:
  - W-2(s)
  - VOE(s)
  - direct verification of employment by a TPV vendor, subject to the following requirements:
    - the Borrower has authorized the Mortgagee to verify income and employment; and
    - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1)
  - evidence supporting enrollment in school or the military during the most recent two full years

G-5 – Non-Taxable Income

CMG gives special consideration to regular sources of income that may be non-taxable, such as child support payments, Social Security benefits, disability retirement payments, foster care, and workers' compensation benefits.

- The lender must document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.
- **Calculation of Effective Income** The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income. The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the lender may Gross Up the Non-Taxable Income by 15 percent.
- The lender may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income. Unless the borrower is not required to file a federal tax return, tax returns must be obtained to determine tax rate and confirm certain incomes are non-taxable.

G-6 – Projected Income

Loans involving a new job for the borrower that will begin after closing may be eligible subject to all of the following requirements:

- The subject transaction is for the purchase of a 1-unit primary residence;
- borrower must have a minimum 640 qualifying credit score;
- maximum DTI is 50%;
- the Borrower's employment offer must be non-contingent and the non- contingent offer letter must be retained in the loan file;
- the Borrower's written acceptance of the employment offer must be retained in the loan file;
- the Expected/Projected income cannot be derived from a family-owned business;

- the Borrower must have cash reserves to support the mortgage payment and any other obligations during the employment gap plus and additional one month's reserves of PITIA;
- the time frame between the Note Date and the start of employment (the employment gap) must not exceed 60 days (Income must be guaranteed to begin within 60 Days of mortgage closing);
- the income is calculated in accordance with the standards for the type of income being received;
- a post-closing copy of the borrower's first paystub / proof of receipt of income must be obtained and verified to support income used to qualify and retained in the loan file.

G-7 – Salary, Commission, Bonus & Overtime

Salary & Wages / Hourly Income

Salary and wage income may be used to qualify. Base income may be used to qualify. Significant increases in base over prior years should be adequately explained. Paystubs or payroll earnings covering the borrower's earnings for the most recent 30-day period and, if applicable, W2s for the most recent two years are required. Generally, the documents must be computer-generated or typed by the borrower's employer, although paystubs or payroll earnings statements that the borrower downloads from the internet are acceptable as well. Documents that are faxed to CMG or that the borrower downloads from the internet must clearly identify the employer's name and source of information.

- Paystubs and payroll earnings statements must identify clearly the borrower as the employee and show the employee's gross earnings for both the most recent pay period and YTD.
- The paystub must be dated within 30 days of the application date and cover at least 30 days of YTD earnings.
- IRS W2 forms must identify the borrower as the employee.
- **HUD's requirements for Hourly Income:**
  - For employees who are paid hourly, and whose hours do not vary, the Lender **must** consider the Borrower's current hourly rate to calculate Effective Income.
  - For employees who are paid hourly and whose hours vary, the Lender **must** average the income over the previous two years. If the Lender can document an increase in pay rate the Lender **may** use the most recent 12-month average of hours at the current pay rate.

Determining the Need for Federal Income Tax Returns

CMG must obtain copies of the individual federal income tax returns filed with the IRS for the past two years for the following types of salaried or commissioned borrowers.

- Borrowers employed by family members
- Borrowers employed by interested parties to the property sale, purchase, or financing transaction
- Borrowers receiving rental income from an investment property
- Borrowers receiving income from periodic employment or employment that is subject to time limits, such as a contract employee or a tradesperson

Bonus

- Refer to "Overtime, Bonus or Tip Income" below.

Commission Income

- All HUD Handbook requirements must be met.
- To document, CMG must obtain and verify per the following:
  - For all Commission Income, the Lender must use traditional or alternative employment documentation.
- Calculation of Effective Income
  - The lender must calculate Effective Income for commission by using the lesser of:
    - Either, (i) the average Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than two years; or
    - The average Commission Income earned over the previous year.

Overtime, Bonus, or Tip Income

- All HUD Handbook requirements must be met. Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.
- The Lender may use Overtime, Bonus or Tip Income as Effective Income if the borrower has received this income for the past two years and it is reasonably likely to continue.
- Periods of Overtime, Bonus or Tip Income less than two years may e considered Effective Income if the Lender documents that the Overtime, Bonus or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
- **Calculation of Effective Income.** For employees with Overtime, Bonus or Tip Income, the Lender must calculate the Effective Income y using the lesser of:
  - The average Overtime, Bonus or Tip Income earned over the previous two years, or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
  - The average Overtime, Bonus or Tip Income earned over the previous year.

Part-Time Employment

- Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week. Borrower must have must have worked the job uninterrupted for the past two years.
- **Calculation of Effective Income:** CMG must average the income over the previous two years. If CMG can document an increase in pay rate the Lender *may* use a 12-month average of hours at the current pay rate.

G-8 – Part Time, Second Job, and Seasonal Income

For all part time and second job requirements, refer to the Overtime, Second Jobs or Additional Job requirements in section G-7 – Salary, Commission, and Bonus.

CMG aligns with FHA requirements in regards to eligibility of and documentation requirements for seasonal income and seasonal unemployment compensation. The following must be verified for seasonal income:

- It must be verified that the borrower has worked in the same job (or the same line of seasonal work) for the past two years.

- It must be confirmed with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

G-9 – Military Income

In addition to base pay, military personnel may be entitled to additional income. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable, provided a verification of employment shows the continuation of the income is likely.

- The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.
- The lender must use the current amount of Military Income received to calculate Effective Income.

G-10 – Rental Income

CMG aligns with HUD in regards to rental income:

- For borrowers vacating their current residence also refer to Part P – Departing Residence Policy.
- For 3-4 Unit Properties also refer to Part J-1 – Property Eligibility – 3-4 Unit Properties.

Rental Income Received from the Subject Property

- The Lender may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.
- Rental Income from the subject Property may be considered Effective Income when the Property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.
- No income from commercial space may be included in Rental Income calculations.
- Required Documentation. Documentation varies depending upon the length of time the Borrower has owned the Property.
    - Limited or No History of Rental Income. Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:
        - Two- to Four-Units. The Lender must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.
        - One Unit. The Lender must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*; Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*; and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.
    - History of Rental Income.

    - Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the Lender must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years.
    - For Properties with less than two years of Rental Income history, the Lender must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.
- Calculation of Effective Income. The Lender must add the net subject property Rental Income to the Borrower's gross income. The Lender may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.
  - Limited or No History of Rental Income. To calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Lender must use the lesser of:
    - the monthly operating income reported on Freddie Mac Form 998; or
    - 75 percent of the lesser of:
      - fair market rent reported by the Appraiser; or
      - the rent reflected in the lease or other rental agreement.
  - History of Rental Income. The Lender must calculate the Rental Income by averaging the amount shown on Schedule E.
    - Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.
    - If the Property has been owned for less than two years, the Lender must annualize the Rental Income for the length of time the Property has been owned.

Rental Income from Other Real Estate Holdings

- Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Lender must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.
- Required Documentation
  - Limited or No History of Rental Income. Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Lender must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.
    - Two- to Four-Units. The Lender must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.
    - One Unit. The Lender must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.
  - History of Rental Income. The Lender must obtain the Borrower's last two years' tax returns with Schedule E.

- Calculation of Effective Net Rental Income
    - Limited or No History of Rental Income. To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Lender must deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:
        - the monthly operating income reported on Freddie Mac Form 998; or
        - 75 percent of the lesser of:
            - fair market rent reported by the Appraiser; or
            - the rent reflected in the lease or other rental agreement.
    - History of Net Rental Income
        - The Lender must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.
    - Depreciation shown on Schedule E may be added back to the net income or loss.
    - If the Property has been owned for less than two years, the Lender must annualize the Rental Income for the length of time the Property has been owned.
    - For Properties with less than two years of Rental Income history, the Lender must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.
    - Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

Boarder Income

- Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.
- **Required Documentation.**
    - The lender must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.
    - For purchase transactions, the Lender must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.
- **Calculation of Effective Income.** The lender must calculate the Effective Income by using the lesser of the two year average or the current lease.

G-11 – Other Sources of Income

In most cases, a borrower's qualifying income is limited to salary or wages. Income from other sources can be considered as effective if properly verified and documented. Other sources of income include:

Alimony or Child Support

Automobile Allowances and Expense Account Payments

Capital Gains

Disability Income / Borrower(s) with a Temporary Reduction in Income / Temporary Leave

Foreign Income

Foster Care Income

Interest and Dividend Income

Notes Receivable

Retirement, Government Annuity, and Pension Income

Social Security Income (SSI)

Tip Income

Trust Income

Unemployment Benefits

VA Benefits Income

Alimony or Child Support

- Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.
- Required Documentation
    - CMG must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.
    - When using a final divorce decree, legal separation agreement or court order, CMG must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.
    - CMG must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
    - CMG must provide evidence that the claimed income will continue for at least three years. CMG may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
- Calculation of Effective Income
    - When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.
    - When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, the Lender may use the current payment to calculate Effective Income.
    - If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, the Lender must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, the Lender must use the average over the time of receipt.

Automobile Allowances and Expense Account Payments

- The lender must verify and document the Automobile Allowance received from the employer for the previous two years.
- Calculation of Effective Income
    - The Lender must use the full amount of the Automobile Allowance to calculate Effective Income.

Capital Gains

- Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.
- Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.
- Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.
- **Required Documentation:** Three years' tax returns are required to evaluate an earnings trend. If the trend:
    - results in a gain, it may be added as Effective Income; or
    - consistently shows a loss, it must be deducted from the total income.

Disability Income

Under no circumstance may the Lender inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

- **Social Security Disability**. For Social Security Disability income, including Supplemental Security Income (SSI), the Lender must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:
    - federal tax returns;
    - the most recent bank statement evidencing receipt of income from the SSA;
    - a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
    - a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.
- **VA Disability.** For VA disability benefits, the Lender must obtain VA Form 26-8937, *Verification of VA Benefits*, showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
    - federal tax returns; or
    - the most recent bank statement evidencing receipt of income from the VA.
- **Private Disability.** For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
    - federal tax returns; or
    - the most recent bank statement evidencing receipt of income from the insurance provider.
- **Disability / Temporary Leave / Temporary Reduction in Income**
    - For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that:
        - the Borrower intends to return to work;
        - the Borrower has the right to return to work; and
        - the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.
    - For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Lender may use the Borrower's pre-leave income.
    - For Borrowers returning to work after the first Mortgage Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave

income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

- Required Documentation. The Lender must provide the following documentation for Borrowers on temporary leave:
  - a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
  - documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
  - documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through intended date of return to work with current employer.

Foreign Income

- Foreign income is acceptable only if income is claimed on U.S. personal tax returns with a 4506T validation.
- Foreign income should be paid in U.S. currency. However, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency and claimed on borrower's U.S. tax returns.

Foster Care Income

- Income received from a state or county sponsored organization for providing temporary care for children may be considered as acceptable stable income as long as a three-year continuance of such income can be established.
- Foster care may be verified by letters from the organization providing the income, copies of the borrowers signed federal tax returns filed with the IRS, or copies of the borrower's deposit slips or bank statements showing the receipt of the income.
- Per the IRS website, foster care income is not taxable so it may not appear on the tax returns.

Interest and Dividend Income

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

- **Required Documentation**
  - The lender must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.
- **Calculation of Effective Income:** The lender must calculate Investment Income by using the lesser of:
  - the average Investment Income earned over the previous two years; or
  - the average Investment Income earned over the previous one year.
  - The lender must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

Notes Receivable

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

- **Required Documentation:** The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.
- **Calculation of Effective Income:** For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

Retirement, Government Annuity, and Pension Income

- Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income will cease within the first full three (3) years of the mortgage loan, the income may only be considered as a compensating factor. Regular and continued receipt of the income can be verified by:
    - Letters from the organizations providing the income;
    - Copies of retirement award letters;
    - Copies of signed federal income tax returns;
    - 1099s;
    - Copies of the borrower's most recent two months bank statements.
- Pension - Calculation of Effective Income
    - The Lender **must** use the current amount of Pension income received to calculate Effective Income.
- Individual Retirement Account and 401(k) –
    - If retirement income is paid in the form of a monthly distribution from a 401K, IRA, or KEOGH retirement account, determine whether the income is expected to continue for three years after the date of the mortgage application to be used as effective income.
    - For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA Income received to calculate Effective Income.
    - For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income.
    - If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.

- If the distribution being received has been newly established, the following is required:
    - Letter, from the organization detailing the terms of the distribution, and setup must be prior to the application date
    - Asset documentation to support sufficient funds for the distribution to continue for a minimum of three years
    - A minimum of one payment from the distribution must be received by the borrower prior to closing. Verification of receipt may be documented via a copy of the distribution check or bank statement showing the distribution being received into the borrower's account

Section 8 & Other Public Assistance

- Section 8 Homeownership Vouchers
  - **Definition** Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).
  - **Required Documentation:** The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.
  - **Calculation of Effective Income:** The Lender may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Lender must use the current subsidy rate to calculate the Effective Income. The income received from Section 8 cannot be Grossed Up.

- Other Public Assistance
  - **Definition** Public Assistance refers to income received from government assistance programs.
  - **Required Documentation** Lenders must verify and document the income received from the government agency.
  - If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue.
  - **Calculation of Effective Income:** The Lender must use the current rate of Public Assistance received to calculate Effective Income.

Social Security Income (SSI)

- When CMG believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, CMG may conclude that the income is considered stable, predictable, and likely to continue and is therefore not expected to request additional documentation from the borrower.
- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if documentation confirms the remaining term is at least three years from the date of the loan application.
- Document benefits and proof of receipt as required by FHA Handbook/TOTAL Scorecard.
- **Calculation of Effective Income:** The Lender **must** use the current amount of Social Security Income received to calculate Effective Income.

Tip Income

- Tip income may be used to qualify the borrower if a verification of employment is received showing the type of income has been received for the past two years and will in all probability continue. An average of the past two years' tip income will be used to qualify the borrower, provided the income is consistent and not declining. The income must be shown on the borrower's tax returns and validated in order to be used to qualify.

Trust Income

- Trust Income refers to income that is regularly distributed to a Borrower from a trust.
- Required Documentation
  - The Mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The Mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.
  - The Mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.
- Calculation of Effective Income: The lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate effective income.

Unemployment Benefits

Unemployment benefits may be used to qualify provided tax returns are obtained showing the income has been received over the past two years and the likelihood of the continuance of the income is established.

If the borrower is a seasonal worker, proof of current receipt of unemployment cannot be a substitute for a current paystub to satisfy the AUS requirement. The paystub must be from the borrower's regular employment.

The following documentation is required:

- Written VOE covering two full years for the seasonal employment
- Proof of receipt of unemployment compensation for two years, if applicable

OR

- Year to date paystub for 30 days (primary job, not unemployment)
- W2s covering the most recent two years
- Proof of receipt of unemployment compensation for two years, if applicable

VA Benefits Income

- VA Benefits may be deemed acceptable with documentation of receipt of VA benefits from a letter of distribution form from the VA and proof the income can be expected to continue for a minimum of three years from the date of closing. Educational benefits are not acceptable income because they are offset by educational expenses.
- Refer to "Disability income" for additional guidance.

G-12 – Self-Employment Income

Basic Information

A borrower with a 25% or greater ownership interest in a business is considered self-employed for FHA loan underwriting purposes. Two (2) year's documentation is required on Self Employed borrowers.

The following documents are required for manually underwritten loans:

- Signed individual tax returns for the past two (2) years
- Signed business tax returns for the past two (2) years if business is an S corporation or a partnership
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
  - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required. The time period is measured from the end of the calendar/fiscal year. A balance sheet is not required for self-employed Borrowers filing Schedule C income.
- Business credit report on corporations and S corporations (not required on TOTAL Approve/Eligible Recommendations)

No business tax returns are required if all of the following conditions are met:

- TOTAL Scorecard Approve/Eligible
- Individual federal returns show increasing self-employed income over the past two years
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
  - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required. The time period is measured from the end of the calendar/fiscal year. A balance sheet is not required for self-employed Borrowers filing Schedule C income.
- Funds to close are not coming from the business account, and
- The proposed mortgage is not a cash out refinance

Generally, the self-employed income is computed using a two year analysis of the borrower's federal tax returns and business returns, if applicable, unless AUS approves with less documentation. A year to date profit and loss statement is not used to calculate qualifying income but instead to consider the borrower's income trend and the overall financial stability of the business. Declining income is subject to careful analysis and may not be approvable. If approvable, generally a worst-case scenario will be used to qualify.

Self Employed Borrowers are defined as borrowers owning 25% or more of a business. If a borrower has less than 25% ownership in a partnership or corporation, business returns are not required. Either the most recent years' K-1 or a statement from the business CPA or CEO is required to document the ownership percentage.

CMG aligns with FHA guidance regarding **decline in income:**

- Total: If the income form the business shows a greater than 20 percent decline over the analysis period, the lender must downgrade and manually underwrite.
- Manual:
    - Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Lender must document that the business income is now stable.
    - A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

Business Use of Home

Mortgage interest, Mortgage Insurance Premiums (MIP), real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.

Income or Loss Reported on Schedule C

- The income or loss from a borrower's sole proprietorship business is calculated on the Profit or Loss from Business (Schedule C) and transferred to IRS Form 1040. Certain adjustments may need to be made to the net profit from Schedule C. If the Schedule C includes income that was not obtained from the profits of the business and that income does not appear likely to continue, the net profit should be adjusted by that figure.
- Refer to Appendix 2.0 in HUD handbook 4000.1, as applicable.

Income or Loss from Schedule F

- Income received from farming is calculated on the Profit or Loss from Farming (Schedule F) and transferred to the IRS Form 1040. In completing the cash flow analysis, certain adjustments may need to be made to the net income amount that was transferred to the 1040. For example, certain federal agricultural payments, cooperative distributions, and insurance or loan proceeds are not fully taxable so they would not have been reported on the 1040. The income sources may or may not be stable or continuous and could be a one-time occurrence. If the income from these sources is stable and continuing, the borrower's cash flow should be adjusted by the non-taxable portion of any recurring income from these sources. Other income on Schedule F may represent income that is not obtained from the borrower's farming operation. If the income cannot be verified to be stable, consistent, and recurring, it must be deducted from the borrower's cash flow. The cash flow may be adjusted by adding the amount of any deductions the borrower took on Schedule F for depreciation, amortization, casualty loss, depletion, and business use of his or her home.

Evaluating Business Tax Returns

- Returns for a Partnership or LLC (IRS 1065 / SCHEDULE K-1)
- Both partnerships and limited liability corporations use the US Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, and Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040).
- When analyzing IRS Form 1065, cash flow analysis of the business should be adjusted by adding back to the business's cash flow depreciation, depletion, amortization or casualty losses, and any other losses that are not consistent nor recurring. The business income should be reduced by the meals and entertainment exclusion, and any other reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of

such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to be adjusted.

- Income that the business receives from a partnership, estate, or trust generally should not be recognized, unless CMG obtains documentation to verify that the income was actually distributed to the borrower's business. If so, the income may only be considered if the borrower's business has a history of receiving such distributions on a consistent basis, the borrower's business has positive sales and earnings trends and adequate liquidity to support the withdrawal and the borrower can document his or her ownership and access to the income the partnership agreement or LLC's operating agreement.
- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.
- Refer to Appendix 2.0 in HUD handbook 4000.1, as applicable.

Returns for an S-Corporation

- S corporations pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. The S corporation uses the US Income Tax Return for an S Corporation (IRS 1120S) and the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing federal income tax returns for the corporation. The shareholder's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040). Ordinary income from the S corporation may be used to qualify the borrower only if the borrower's business has a history of receiving such distributions on a consistent basis, the business income is stable and consistent, the earning trends are positive, and the business has adequate liquidity to support the borrower's withdrawal of cash without a severe negative effect to the business. To determine the S corporation's ability to support the borrower's withdrawal of earnings, the underwriter should review the S corporation's history of distributions and its financial and liquidity positions.
- When analyzing IRS Form 1120S, the cash flow should be adjusted by adding back depreciation and depletion. The cash flow should be reduced by meals and entertainment exclusion and any reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. The borrower's withdrawal of cash from the corporation have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.
- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Returns for a Corporation

- A corporation uses the US Corporation Income Tax Return (IRS Form 1120) to report its taxes. Corporate earnings may not be used to qualify unless it is determined that the borrower owns 100% of the business. A borrower's percentage of ownership in a corporation can usually be determined from the "compensation of officers" section of the corporate tax return. A statement from the corporation's accountant will be acceptable evidence of the borrower's ownership of a business. When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, time adjustments must be made to relate the corporate income to the borrower's individual tax returns (which is based on a calendar year).
- When analyzing IRS Form 1120, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. Deductions the business took for net operating losses and other special deductions that do not represent recurring expenses or losses should be added back to the cash flow analysis. The cash flow should be reduced by the meals and entertainment exclusion. The corporation's taxable income does not reflect the corporation's tax liability and dividends it pays to its stockholders; therefore the cash flow should be reduced by the corporation's tax liability and the amount of any dividends payable from the corporation. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Evaluating Profit and Loss Statements

- A profit and loss statement (audited or unaudited) may be used to support the determination of stability and continuance of income for a self-employed borrower. Profit and loss statements cannot be used to establish new income levels, but can be used to support the fully documented income level. A typical Profit and Loss statement has a format similar to the Schedule C. If the borrower's year to date salary or draws were not used for the qualifying income, they may be added to the net profit on the P&L statement, and the following items may be added back to the net profit figure as well: nonrecurring income and expenses, depreciation, and depletion. However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that can be used to qualify.

G-13 – Unacceptable Income Sources

CMG considers any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations as an ineligible income source for all financing types and programs. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:

- Foreign shell banks
- Medical marijuana dispensaries
- Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
- Businesses engaged in any type of internet gambling.

CMG may only consider income if it is legally derived. Per IRS regulations, income derived from trafficking in controlled substances is illegal and under federal law, marijuana is a controlled substance.

Part H – Asset Assessment

H-1 – Asset Assessment & Required Reserves

Automated underwriting systems will indicate the minimum verification documentation necessary to process the loan transaction. This level of documentation may not be adequate for every borrower and every situation. The underwriter must determine whether additional documentation is warranted.

Ineligible Assets:

- 1031 exchanges are not permitted and are ineligible as an asset type.
- Custodial Accounts for Minors; accounts that are in a minor's name where the borrower is the only custodian of the funds are not eligible for closing costs, reserves or downpayment.
- **Pooled Funds**
- **Mattress Money / Cash on Hand**
- **Sweat Equity**
- **Trade Equity**

For depository accounts (checking, savings, money market funds, CDs), two consecutive monthly statements are required. Loans scored through an AUS may provide reduced documentation requirements and should be documented according to the findings.

- Monthly bank statements must be dated within 45 days of the initial loan application.
- Quarterly bank statements must be dated within 90 days of the initial loan application.

Bank statements must:

- Clearly identify the borrower as the account holder and include the account number
- Include the time period covered by the statement
- Include all deposits and withdrawal transactions
- Include the ending balance

Written Verifications of Deposit (VOD) are not acceptable. Only system generated Verifications of Deposit from the financial institution are acceptable. VODs as standalone asset documentation are not acceptable, and must always be accompanied by bank statements.

CMG must investigate any indications of borrowed funds. They include recently opened accounts, large deposits, or account balances that are considerably greater than the average balance over the past few months. All large deposits must have a written explanation from the borrower as to the source of the funds as well as documentation of the funds.

Reserves

- **One- to Two-Unit Properties – Manual Underwriting Only:** The lender must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.
- For requirements for 3-4 Unit Properties refer to Part J-1 – Property Eligibility – "3-4 Unit Properties"
- Reserves do not include:
    - the amount of cash taken at settlement in cash-out transactions;
    - incidental cash received at settlement in other loan transactions;
    - equity in another Property; or
    - borrowed funds from any source.

H-2 – Depository Accounts

Earnest Money Deposit:

The lender must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's cancelled check;
- certification from the deposit-holder acknowledging receipt of funds; or
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a TPV vendor, subject to the following requirements:
    - the Borrower has authorized the Mortgagee to verify assets;
    - the date of the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1); and
    - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, the lender must verify that the gift is in compliance with Gifts (Personal and Equity).

Joint deposit accounts:

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

Large Deposits

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Lender must obtain documentation of the deposits. The lender must also verify that no debts were incurred to obtain part, or all, of the MRI.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, CMG does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, additional documentation should be obtained.

Traditional Documentation - The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements:
    - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
    - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

H-3 – Gift Funds

In order for down payment funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower. Regardless of when gift funds are made available to a borrower, CMG must be able to determine that the gift funds were not provided by an unacceptable source, and were the donor's own funds. For manually underwritten loans, surplus gift funds may not be considered as cash Reserves. F*or TOTAL loans must be entered correctly and AUS requirements must be met.*

Gifts may be provided by:

- the Borrower's Family Member*;
- the Borrower's employer or labor union;
- a close friend with a clearly defined and documented interest in the Borrower;
- a charitable organization;
- a governmental agency or public Entity that has a program providing homeownership assistance to:
    - low or moderate income families; or
    - first-time homebuyers.

*Note: A cousin is NOT considered a "Family Member" for the purpose of providing gifts. **Family Member** is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- child, parent, or grandparent;
    - a child is defined as a son, stepson, daughter, or stepdaughter;
    - a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
- spouse or domestic partner;
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
- foster child;
- brother, stepbrother;
- sister, stepsister;
- uncle;

- aunt; or
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.

The donor may not be a person or entity with an interest in the sale of the property, such as:

- The seller
- The real estate agent or broker
- The builder, or
- An associated entity

Note: Gifts from these sources are considered inducements to purchase and must be subtracted from the sales price. This applies to properties where the seller is a government agency selling foreclosed properties.

- A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property. The gift of equity is transferred to the buyer as a credit in the transaction. Only family members may provide equity credit as a gift on property being sold to other family members.
- The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following:
  - the donor's name, address, telephone number;
  - the donor's relationship to the Borrower;
  - the dollar amount of the gift; and
  - a statement that no repayment is required.
- **Documenting the Transfer of Gifts.** The Mortgagee must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

  a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.
  b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the gift.

  If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

  Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

Note: Donor's Bank Statement refers to a full 30 day statement.

H-4 – Retirement Accounts

- The Lender may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
- The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.
- The lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account. If any portion of the asset is required for funds to close, evidence of liquidation is required.

H-5 – Stocks, Bonds, and Mutual Funds

The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

- If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.
- The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.
- For stocks and bonds not held in a brokerage account the Lender must obtain a copy of each stock or bond certificate.

H-6 – Employer Assistance

- Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.
- A salary advance cannot be considered as assets to close.
- **Relocation Guaranteed Purchase:**
  - The lender may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.
  - If the Borrower is being transferred by their company under a guaranteed sales plan, the lender must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.
  - The lender must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

- **Employer Assistance Plans**
  - The amount received under Employer Assistance Plans may be used as cash to close.
  - The Lender must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Lender must verify and document that the Borrower has sufficient cash for closing.

H-7 –Sale of Real Property

- Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.
- **Required Documentation:** The lender must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or similar legal document. The lender must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sale proceeds.

H-8 – Sale of Personal Assets

CMG aligns with FHA requirements in regards to Sale of Personal Assets:

- Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.
- The lender must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.
- Borrowers may sell Personal Property to obtain cash for closing. *Note: Not eligible for reserves.*

The lender must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

H-9 – Rent Credit (Lease Purchase or Option to Purchase)

CMG Aligns with FHA requirements in regards to Rent Credits:

- Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.
- The Lender may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.
- The Lender must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

Note: Excess rent credit is considered an inducement to purchase and must be treated accordingly.

H-10 – Business Accounts

Business funds may be used for down payment, closing costs and reserves if the borrower is a 100% owner of the business and appropriate evidence can be provided that shows the borrower as the owner of the account. Additionally, a cash flow analysis must be completed by the underwriter to determine that the withdrawal of funds will not negatively affect the business.

H-11 – Cash on Hand

CMG Overlay: Cash on hand is not an acceptable source of funds for the down payment or closing costs.

H-12 – Real Estate Commission from Sale of Subject Property

Real Estate Commission from Sale of Subject Property: Mortgagees (Lenders) may consider Real Estate Commissions from the Sale of the Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent. A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements. The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the property being purchased.

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the property being purchased.

Part I – Liability & Debt Analysis

I-1 – Debt-to-Income Ratio

Debt to income ratios, which consist of two components, monthly housing expense and the total of all other monthly debt obligations, are used to compare the borrower's anticipated monthly housing expense and total monthly debt obligations to his or her stable monthly gross income. Long term debt, and some that represent significant short term debt, must be taken into consideration in developing a borrower's qualifying ratio.

- AUS approved loans max DTI is per AUS.
- Manual underwrites must meet all FHA requirements. Refer to Part F8 – Credit Analysis – Manual Downgrades/Manual Underwriting.

DTI is calculated using the following table.

Table I-1-A DTI Calculation Method

Mortgage Type	Qualifying Interest Rate
Fixed Rate Mortgage	Note Rate
5/1 ARMs	Note Rate

Paying Down/Off Debt to Qualify:

- Installment: All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.
- Revolving: Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.
  - Revolving debt cannot be not be paid down to qualify.
  - Revolving debt may be paid off to qualify at underwriter discretion subject to FHA eligibility. Underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed prior to or at closing

I-2 – Monthly Debt

CMG's risk analysis must include an evaluation of liabilities that may affect the borrower's ability to repay the mortgage obligation.

For each liability, the unpaid balance, the terms of repayment, and the borrower's payment history must be determined. If the credit report does not contain a reference for each significant open debt shown on the application, separate credit verification must be provided.

The section describes obligations that should be considered when underwriting the loan, including:

Alimony/Child Support/Separate Maintenance Payments

- Must obtain the borrower's pay stubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support, and maintenance.
- Must calculate the monthly obligation from the greater of: (1) the amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or (2) the monthly amount of the garnishment.

Assumption with No Release of Liability

- The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:
- Copy of documents transferring ownership of the property;
  - The assumption agreement executed by the transferee; and
  - Evidence that the mortgage is current.

Authorized User Accounts

- Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Lender can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

Business Debt in a Borrower's Name

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

- When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.
- **Required Documentation.** When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business.

Contingent Liabilities / Cosigned Liabilities / Court Ordered Assignment of Debt

- A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.
- The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless:
  - the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default; or
  - the other legally obligated party has made 12 months of timely payments and does not have a history of delinquent payments on the loan.
- The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.
- **Required Documentation**
  - **Mortgage Assumptions:** The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.
  - **Cosigned Liabilities:** If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.
  - **Court Ordered Divorce Decree:** The Mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

Deferred Payment Accounts:

- The Lender must include deferred obligations in the Borrower's liabilities.
- **Required Documentation**
  - The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability.
  - The Lender must obtain evidence of the anticipated monthly payment obligation, if available.
- Calculation of Monthly Obligation
  - The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.
  - If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
  - Refer to "Student Loans" in this section, as applicable.

Home Equity Lines of Credit (HELOC)

- When the mortgage also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so CMG does not need to develop an equivalent payment amount.

Installment Debt

All applicable monthly liabilities must be included in the qualifying ratio.

- Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income.
- The Borrower may not pay down the balance in order to meet the 10-month requirement.
- Refer to "Student Loans" in this section, as applicable.

Lease Payments

- The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

Loans Secured by Retirement Savings Plans

- Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments; however, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

Non-Purchasing Spouse

- If the borrower resides in a community property state or the property is located in a community property state, the debts of the non-purchasing spouse must be considered in the qualifying ratios except those obligations specifically excluded by state law. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report meeting the same requirements as a purchasing borrower must be met. (Community-Property states are: AZ, CA, ID, LA, NV, NM, TX, WA and WI)
- Refer to Part A-7 – Non Borrowing Spouse Considerations for additional guidance.

Open 30-Day Accounts

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

- The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.
- **Required Documentation:** The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Lender must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage.

Revolving Debt

- **P**ayoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.
  - Revolving debt cannot be not be paid down to qualify.
  - Revolving debt may be paid off to qualify at underwriter discretion subject to FHA eligibility. Underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed prior to or at closing
- Where the credit report does not reflect the necessary information on the charge account, the lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

Student Loans

CMG aligns with FHA's guidance on student loans. Mortgagee Letter (ML) 2021-13 provides revised student loan calculation requirements of the monthly payment obligation.

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

Required documentation: If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

Calculation of Monthly Obligation For outstanding Student Loans, regardless of payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

Note regarding student loans in default: FHA guidelines state that the Mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable. If the Student Loan Payment Agreement states that after a specific number of payments must be made to remove the default status, the loan is not considered out of default until the borrower has met the terms in the agreement.

Timeshare

- A loan secured by an interest in a timeshare must be considered an installment loan.

Unpaid Federal Tax Debt

- Borrowers with delinquent Federal Tax Debt are ineligible:
  - Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
  - The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

- FHA does not treat a tax liability the same as a delinquent tax lien. As noted above, for a delinquent tax lien, FHA requires at three months paid as agreed. For a tax liability (that is not a tax lien) proof of the three months paid as agreed is not required; however, the lender is still responsible to verify borrower's tax debt and include the tax payment into the total DTI. To verify the borrower's tax liability and payment, a copy of the IRS agreement must be provided.

Note: For years available, Account Transcripts or Record of Account (ordered via 4506-T) can be used in lieu of cancelled check or proof of electronic payment.

Qualifying Impact of Other Real Estate Owned

- All FHA requirements must be met in regards to reserves, rental income, etc.

Part J – Property Eligibility

J-1 – Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- 2-4 Family Dwellings (3-4 unit properties in NJ & NY allowed subject to 100% prefunding QC audit). See below for additional FHA requirements for 3-4 Unit Properties.
- Condominiums and Site Condominiums
- Planned Unit Developments
- Modular homes are not considered manufactured and are eligible under the guidelines for one-unit properties. The housing must assume the characteristics of site built housing, must be legally classified as real property, and must conform to all local building codes in the jurisdiction in which they are permanently located.
- Unique homes such as log homes will be reviewed on an exception basis; like comparables must be provided

3-4 Unit Properties:

Regardless of occupancy status, three and four unit properties must be self-sufficient. This means the maximum mortgage is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100%. The calculation below is in addition to the regular maximum mortgage calculations:

- The monthly payment is defined as principal, interest, taxes and insurance including mortgage insurance (PITI) and any homeowners' association dues, computed at the note rate (no consideration for buydowns may be given).
- Net rental income is the appraiser's estimate of fair market rent from ALL units, including the unit that the borrower will occupy, minus 25% for vacancies and maintenance or the vacancy and maintenance factor determined by the jurisdictional HOC.
- Divide the monthly mortgage payment by the monthly net rental income. The monthly mortgage payment cannot exceed 100% of the net rental income. If it exceeds 100%, the loan amount must be reduced to a level that the monthly mortgage payment will not exceed 100% of the net rental income for the property.
- Borrowers must still qualify for the mortgage based on income, credit, cash to close, and the projected rents received from the remaining units. The projected rental of the subject property may only be used as income for qualifying purposes, it cannot be used to offset the mortgage payment. 3-4 Unit properties must be self-sufficient

Reserves (3-4 Unit properties): For three and four unit properties, the borrower *must* have personal reserves equivalent to three months' PITI after closing on a purchase transaction. Reserves cannot be derived from a gift.

J-2 – Ineligible Collateral

- Mixed Use Properties
- Multi-family properties with more than four units
- Agricultural-type properties (such as farms, orchards or ranches) where income is being produced from the property
- Bed and Breakfast Properties
- Properties not suitable for year-round occupancy
- Properties not accessible by roads meeting local standards
- Non-HUD approved Condominiums
- Weatherization financing (II.A.8.i)
- EEM/Energy Efficient Financing (II.A.8.c)
- Solar & Wind Technologies Financing (II.A.8.j)
- Construction to Permanent Financing (II.A.8.g)
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Timeshares
- Property Flip when Non-Arm's Length Transaction
- Properties appraised with condition C5 or worse
- Properties with:
    - Any health/safety issues or repairs needed;
    - Less than average condition;
    - No permanent heating source;
    - Private Transfer Fee Covenants;
    - Resale restrictions (Age restricted properties allowed – Refer to J-9 Properties Subject to Age Restrictions)
    - Utilities turned off

J-3 – Manufactured Homes

One Unit Manufactured homes are eligible per the Manufactured Home Guideline Addendum.

J-4 – Appraisal Documentation

USPAP COMPLIANCE
All appraisals must comply with the standards and practices established by the Uniform Standards of Professional Appraisals Practice (USPAP).

The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with CMG's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party is not allowed to select an appraiser from an approved appraiser list.

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter does not directly report to someone involved in loan production. The underwriting review must confirm the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

Appraisal Review Process
CMG will use various fraud and valuation tools to provide data to the underwriter when reviewing appraisals. The required products vary in accordance with the Appraisal Tree. The data as well as the appraisal report will be reviewed when determining acceptability of the appraisal report.

CMG Ineligible List
All loans will be reviewed against the Ineligible Appraiser List. If an appraisal is completed though an appraiser on the list, additional appraisal products may be required.

APPROVED AMCs
Appraisals must be ordered through an approved AMC.

J-5 – Appraisal Forms and Exhibits

Table J-5-A: Appraisal Forms and Exhibits

FNMA 1004 - Uniform Residential Appraisal Report	This report is used to appraise single family properties and properties located in a PUD (including single family properties with an accessory unit). Includes both an interior and exterior inspection. In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.
FNMA 1073 - Individual Condo Unit Appraisal Form	This form is used to appraise individual units located in an individual condominium unit. It includes both an interior and exterior inspection.
FNMA 1025 -Small Residential Income Property Report	This appraisal report is used for 2-4 unit properties and includes an interior and exterior inspection
FNMA 1004D – Appraisal Update and/or Completion Report	For appraisal updates and/or completion reports for all one-to-four unit appraisal reports
FNMA 1004MC – Market Conditions Addendum	Required for all one-to-four family properties. Form 1004MC is intended to provide CMG with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. There are several shaded areas in the form to recognize that not all data may be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion in these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis.

- The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.
- The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value. The sketch must show "covered" or "uncovered" to indicate a roof or no roof (such as over a patio). The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.
- The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser's observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirement**
Subject Property Exterior	• Front and rear at opposite angles to show all sides of the dwelling • Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photograph • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject's grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	• Kitchen, main living area, bathrooms, bedrooms • Any other rooms representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas
Comparable Sales, Listings, Pending Sales, Rentals, etc.	• Front view of each comparable utilized • Photographs taken at an angle to depict both the front and the side when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	• Additional photographs of the common areas and shared amenities of the Condominium Project

J-6 – Appraisal Transfers

Transferred Appraisals:

- In cases where a Borrower has switched Lenders, the first Lender must, at the Borrower's request, transfer the appraisal to the second Lender within five business days. The Appraiser is not required to provide the appraisal to the new Lender. The client name on the appraisal does not need to reflect the new Lender. If the original Lender has not been reimbursed for the cost of the appraisal, the Lender is not required to transfer the appraisal until it is reimbursed.
- The second Lender may not request the Appraiser to re-address the appraisal. If the second Lender finds deficiencies in the appraisal, the Lender must order a new appraisal.
- Where a Mortgagee uses an existing appraisal for a different Borrower, the Mortgagee must enter the new Borrower's information in FHAC. The Mortgagee must collect an appraisal fee from the new Borrower and refund the fee to the original Borrower.
- If a Case Transfer is involved, the new Mortgagee must enter the Borrower's information in FHAC. The new Mortgagee must collect an appraisal fee from the Borrower, and send the fee to the original Mortgagee, who, in turn, must refund the fee to the original Borrower.

Second Appraisal by Second Mortgagee

- A second appraisal may only be ordered by the second Mortgagee under the following limited circumstances:
  - the first appraisal contains material deficiencies as determined by the underwriter for the second Mortgagee;
  - the Appraiser performing the first appraisal is prohibited from performing appraisals for the second Mortgagee; or
  - the first Mortgagee fails to provide a copy of the appraisal to the second Mortgagee in a timely manner, and the failure would cause a delay in closing and harm to the Borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

Note: For the first two cases outlined above, the Mortgagee must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder. For the third case above, the first appraisal must be added to the case binder if it is received.

The Mortgagee must document why a second appraisal was ordered and retain the explanation and all appraisal reports in the case binder.

J-7 – Appraisal Assessment

CMG is responsible for ensuring that appraisal reports are complete and that any changes to the report are made by the appraiser who originally completed the report. If CMG has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, CMG must attempt to resolve its concerns with the appraiser who originally prepared the report. If CMG is unable to resolve its concerns with the appraiser, a replacement report prior must be obtained to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount.

J-8 – Appraisal Repairs

Regardless of product, if an appraisal is required and that appraisal is subject to ANY repairs, the repairs noted need to be cured and a final inspection issued by the appraiser will be required. Refer to Escrow Holdback Guideline Addendum for completion escrow holdback parameters.

J-9 – Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions and be prior approved by Corporate Credit:

Government Housing Programs - The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings provided under any STATE OR FEDERAL PROGRAM specifically designed and operated to assist the elderly or to house elderly persons. The Secretary of HUD must determine that the development meets this exemption.

Age Restrictions – 62 years of age or older
The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended for, and solely occupied, by persons 62 years of age or older.

Age Restrictions – Any age restriction
The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
    - Reliable surveys and affidavits;

Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

Required Documents for Age Restricted Properties

- When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions (see Form 38). By signing this form the association certifies that the housing development is in compliance with the Fair Housing Act.
- The Appraiser must note the presence of any Easements and Deed Restrictions to assist the Mortgagee in determining eligibility.
- The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.

J-10 – Underwriting the Property

All properties must meet HUD eligibility requirements. Refer to HUD Handbook 4000.1 for full requirements.

Abandoned Gas or Oil Well – Underwriting the Property

- If the Property contains any abandoned gas or oil wells, the Lender must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.
- If the Property contains any abandoned petroleum product wells, the Lender must ensure that a qualified petroleum engineer has inspected the Property and assessed the risk, and that the appropriate state authorities have concurred on clearance recommendations.

Access to Properties – Underwriting the Property

- The Lender must confirm that the Property is provided with a safe pedestrian access and Adequate Vehicular Access from a public or private street. Streets must either be dedicated to public use and maintenance, or retained as private streets protected by permanent recorded Easements.
- Private streets, including shared driveways, must be protected by permanent recorded Easements, ownership interest, or be owned and maintained by an HOA. Shared driveways do not require a joint maintenance agreement.

Accessory Dwelling Units

- A one-unit property with an ADU will be treated as a one-unit property; however, an ADU located on any property with two or more units must be considered as an additional unit. In additional HUD-92561 must be obtained for properties with an Accessory Dwelling Unit.

One Unit

A one-unit Property is a Single Family residential Property with a single Dwelling Unit, or with a single Dwelling Unit and a single ADU.

Two Unit

A two-unit Property is a Single Family residential Property with two individual Dwelling Units.

Three to Four Unit

A three- to four-unit Property is either:
• a Single Family residential Property with three or four individual Dwelling Units; or
• a Single Family residential Property with two individual Dwelling Units and one ADU or three individual Dwelling Units and one ADU.

Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary one-unit Single Family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

A Single Family residential Property with an ADU remains a one-unit Property. For any Property with two or more units, a separate additional Dwelling Unit must be considered as an additional unit.

Condominiums

- Condominiums must be FHA Eligible.
  - HUD requires the use of form 9991 for Loan level (approved projects) and Single Unit Approvals.
    Note: *FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project when the FHA Insurance Concentration exceeds 10 percent of the total number of Units in the Condominium Project for Condominium Projects with 20 or more Units. For Condominium Projects with less than 20 Units, the number of FHA-insured Mortgages cannot exceed two.*
  - HUD requires the use of form 9992 for full HRAP project approval of an unapproved project.

Notes:

- HUD does not accept 3rd party condo questionnaires for any loans.
- FHA is very clear they will NOT accept a 3rd party cert such as Homewise docs or condo certs.
- The questionnaire is the warranty form.
- It is unacceptable to transfer the information from a third party cert to the FHA form, the required form must come from a board member or management company.

Defective Conditions

The Mortgagee must evaluate the appraisal in accordance with the requirements for Defective Conditions. When defective conditions exist and correction is not feasible, the Mortgagee must reject the Property. The Mortgagee may only approve a Property after the Mortgagee confirms that all defects reported by the Appraiser have been corrected.

Defective Conditions Requiring Repair - The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR or MPS when cured, and provide an estimated cost to cure.

Note: Although the appraiser is required to provide an estimated cost to cure, this does not replace the requirement that the defects must be corrected.

Existing Property

- Properties less than one-year old subject to a second sale are treated like existing properties. FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an existing Property.

Hotel and Transient Use

The Mortgagee must obtain the Borrower's agreement that Investment Properties using FHA-insured financing will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 Days. The Mortgagee must obtain a completed form HUD-92561, Borrower's Contract with Respect to Hotel and Transient Use of Property, for each Mortgage secured by:

- a one-unit Single Family dwelling with an Accessory Dwelling Unit (ADU);
- a two- to four-unit dwelling; or

- a Single Family dwelling that is one of a group of five or more dwellings owned by the Borrower within a two block radius.

Leased Solar Panels

- Properties with leased solar panels/PPA are permitted when all FHA requirements are met. The Leased and PPA Solar Lease Checklist must be included in the loan file. under "Legal Restrictions on Conveyance". These requirements include guidance on "Free Assumability". Refer to the HUD Handbook and 24 CFR § 203.41.

New Construction

- New Construction must meet all requirements now located in Handbook 4000.1 II.A.8.i.
- CMG does NOT permit Construction to Permanent (II.A.8.j). A Construction to Permanent Mortgage combines the features of a construction loan (a short-term interim loan for financing the cost of construction) and the traditional long-term permanent residential Mortgage with a single mortgage closing prior to the start of construction.
- FHA's product for "Building on Own Land" Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the Borrower. Refer to Part Q: 8 – Building on Own Land.

Operating Oil or Gas Wells

If a New Construction dwelling is located within 75 feet of an operating oil or gas well, the Mortgagee must reject the Property unless mitigation measures are completed.

Special Airport Hazards

If a Property is Existing Construction and is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must obtain a Borrower's acknowledgement of the hazard.

If a New Construction Property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the Mortgagee must reject the Property for insurance.

Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible for FHA mortgage insurance provided that the Mortgagee determines that the Property complies with Department of Defense guidelines.

Swimming Pools – Underwriting the Property

- The Lender must confirm that any swimming pools comply with all local ordinances.

Utility Services – Underwriting the Property

- If utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body, the Lender must confirm that this information is recorded on the deed record.

Wastewater Treatment Systems

- On-site wastewater treatment systems other than acceptable septic systems are not eligible. Examples of unacceptable systems include, but are not limited to, the following:
  - Vault Privy
  - Incineration Toilets
  - Composting Toilets
  - Chemical Toilets
  - Outhouses

Water Wells – Underwriting the Property

- Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)
  - Wells must deliver a continuous water flow of five gallons per minute over at least a four-hour period
- Water Wells Minimum Property Requirements for Existing Construction
  - Existing wells must a continuous deliver water flow of three to five gallons per minute

Note: When an Individual Water Supply System is present, the Mortgagee must ensure that the water quality meets the requirements of the health authority with jurisdiction. If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the National Primary Drinking Water regulations in 40 CFR §§ 141 and 142.Soil poisoning is an unacceptable method for treating termites unless the Mortgagee obtains satisfactory assurance that the treatment will not endanger the quality of the water supply. Requirements for the location of wells for FHA-insured Properties are located in 24 CFR § 200.926d (f) (3). Refer to the current handbook for minimum distance required between wells and sources of pollution for Existing Construction, additional requirements, and more information on shared wells.

As a reminder, CMG does not accept properties that require individual water purification systems.

Refer to the current FHA Handbook 4000.1 for Shared Well requirements.

Zoning

- The Appraiser must determine if current use complies with zoning ordinances.
- If the existing Property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the Property as “Legal Non-Conforming” and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the non-conforming use has on the Property’s value and marketability, and state whether the Property may be legally rebuilt if destroyed.

Note: HUD has advised that if the appraiser does not comment that it may be legally rebuilt if destroyed the loan is not eligible for FHA financing.

Part K – Geographic Restrictions

K-1 – Geographic Restrictions

CMG only lends in states where they are licensed to do so; for more information please visit CMG's NMLS Consumer Access page (www.nmlsconsumeraccess.org).

3-4 unit properties in New York & New Jersey allowed subject to 100% prefunding QC audit.

NY CEMA Transactions:

- Eligible Transaction Types:
  - 1-4 unit properties; however 3-4 unit properties subject to 100% prefunding QC audit.
  - Refinance transactions on properties located in the state of NY
  - FHA Fixed and ARM loans
- Ineligible Transaction Types:
  - Purchase transactions
  - Transactions on properties located outside the state of NY
- Refer to the "CMG New York Guideline Addendum" for requirements and additional information: Click Here for full Guideline Addendum

Also, refer to CMG Compliance Policy: Compliance State Guidance

Texas transactions when converting a home equity loan (A6) to a non-home equity loan are eligible if the requirements noted below are met.

Converting Texas Section 50(a)(6) to a Non Home Equity Loan

Texas amendments now for a rate/term refinance of a home equity loan. Under the previous law, a home equity loan could only be refinanced into another home equity loan or reverse mortgage – commonly known as the "once a home equity, always a home equity" rule. Effective for new applications, a Texas home equity loan may be refinanced with a regulator rate/term refinance as long as all rate/term requirements and all of the following conditions are met:

- The rate/term refinance cannot close until a full year has elapsed since the closing date the home equity loan was closed;
- The refinance may not include the advance of any additional funds other than:
  - Funds to pay off the secured debt, and
  - The actual costs and reserves to refinance the loan.
- The principal loan amount cannot exceed 80% of the fair market value of the property
  - Since there is no safe harbor in the law on what type of valuation may be relied on to establish fair market value of the property, the ***Fair Market Value Affidavit*** must be signed and dated by the borrowers at closing.

- The ***12-Day Notice*** (aka Refinance Option Disclosure) must be delivered the borrowers no later than 3 business days after the application date and received by all owners/borrowers at least 12 calendar days prior to the closing/signing date.
    - **Note:** This version of the 12-day notice for conversion to non-A6 will be in the initial document package. In order to generate the document with IDS, the "TXA6 to Non TXA6" field in Byte must be checked.
    - **Program Change:** If the loan starts as a different program then changes to the A4, this notice must be delivered within 3 days of that program change to A4.
- The ***Four Conditions Affidavit*** must be signed by the borrowers at closing. This Four Conditions Affidavit will be in the closing document package.

CMG Internal: Refer to Corporate Procedures > TX 2018 Home Equity Loan Procedure. In order to generate the documents with IDS, the "TXA6 to Non TXA6" field in Byte must be checked

Part L – Disaster Policy

L-1 – General Information

When a property is located in a Disaster Area, CMG must verify the structure is sound and not negatively impacted by the Disaster. This must be verified prior to closing / purchasing the loan.

Refer to the list of affected counties published by FEMA for Individual Assistance only at the following link: www.fema.gov

- CMG will require recertification from the appraiser on all loans located in the affected Counties prior to closing;
- If the county is indicated as being in a declared disaster area, the policy must be adhered to;
- The Disasters are referenced with both an incident start date and an incident ending date. The property is considered potentially impacted for 120 days from the incident END date to the date of the property inspection or valuation date;
- If a full appraisal was obtained on the property prior to the declared disaster, the inspection must verify the property is sound and habitable and in the same condition as when it was appraised. Any of the following options are acceptable to satisfy this requirement:
    - A 1004D Final Inspection or Appraisal Update signed by the original appraiser
    - FNMA 2075 – Desktop Underwriter Property Inspection Report
    - DAIR – Disaster Area Inspection Report
- Full appraisals obtained after the declaration need to indicate the property has not been impacted by the disaster;

Proper recertification is required prior to loan approval.

Note: HUD requires that the damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period (as defined by FEMA).

Also, refer to full CMG Policy: Disaster Area

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Part M – Mortgage Insurance (UFMIP & Annual Premium)

UFMIP (Up-front Mortgage Insurance Premium) 1-4 Detached Units, Condos and PUDs require an Up-Front MIP (UFMIP) be financed or paid 100% in cash. When an existing FHA loan is paid-off with the refinance of a new FHA loan, any refund of unused UFMIP must be used to offset the new loan amount

All Mortgages: 175 basis points (bps) (1.75%) of the Base Loan Amount.

Exception: SIMPLE & STREAMLINES OF LOANS ENDORSED PRIOR TO JUNE 1, 2009. These loans continue to be eligible under lower premiums: UFMIP of .01 percent of the base loan amount.

- Annual MIP
    - An Annual Premium is collected in the monthly impound escrow for a specific period of time.
    - Effective with case numbers assigned on or after June 3, 2013 FHA revised **the period for assessing the annual MIP;**
        - For all mortgages regardless of their amortization terms, any mortgage involving an original principal obligation (excluding financed Up-Front MIP (UFMIP)) less than or equal to 90 percent LTV, the annual MIP will be assessed until the end of the mortgage term or for the first 11 years of the mortgage term, whichever occurs first.
        - For any mortgage involving an original principal obligation (excluding financed UFMIP) with an LTV greater than 90 percent, **FHA will assess the annual MIP until the end of the mortgage term** or for the first 30 years of the term, whichever occurs first.
    - Purchase, Refinance & Simple/Streamline Refinance**: Case Numbers Assigned ON OR AFTER January 26, 2015 –

Term >15 Years		
Base Loan Amount	**LTV**	**Annual MIP**
≤$625,500	≤95%	80 bps
	>95%	85 bps
>$625,500	≤95%	100 bps
	>95%	105 bps
Term ≤15 Years		
≤$625,500	≤90%	45 bps
	>90%	70 bps
>$625,500	≤78%	45 bps
	78.01% - 90%	70 bps
	>90%	95 bps

** EXCLUDING SIMPLE & STREAMLINES OF LOANS ENDORSED PRIOR TO JUNE 1, 2009. These loans continue to be eligible under lower premiums: Annual MIP of 55 bps regardless of the base loan amount and UFMIP of .01 percent of the base loan amount. The Endorsement date is on the Case Query screen in FHA Connection.

Part N – Property Insurance

N-1 – Escrows for Taxes and Insurance

Escrows are always required on FHA loans, regardless of LTV. Effective on loans closed on or after January 1, 2016 that require flood insurance: the premiums related to the flood insurance must be escrowed - escrows for these premiums may not be waived, regardless of LTV. If flood insurance premiums are paid by a condominium association, homeowner's association or other group, no escrow is required. Note: CMG does not permit escrow for earthquake insurance.

N-2 – Hazard Insurance

CMG must ensure that adequate hazard insurance for the security property is in place.

Agent Rating Requirements

Unless CMG has approved alternative arrangements in advance, the hazard insurance policy for a property securing any first mortgage—including blanket policies for condos and PUDs—must be written by a carrier that meets Fannie Mae current rating requirements.

General Hazard Insurance Coverage – 1-4 Family Dwellings

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Exclusions or limitations (in whole or in part) for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not permitted.

Coverage Requirement

Required coverage must be equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Required Coverage for PUDs or Condos

Most condominium projects have master or blanket policies that address the insurance requirements for each unit. Each loan file must contain a copy of the blanket policy as well as a copy of the Evidence of Insurance that specifies the individual unit. Blanket policies may not permit:

- A blanket policy covering multiple unaffiliated condo associations or projects OR
- Self insurance arrangements in which the HOA is self-insured or has banded together with unaffiliated associations to self-insure the general and limited common elements of various associations.

The term “walls-in” for insurance policies has been eliminated and revised requirements have been updated. The new requirements are described below. The HO-6 policy is still required if the master insurance policy does not provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made for the individual unit.

A statement is required from the insurance agent that states: “Based on our best knowledge and information, the HO-6 coverage amount is appropriate and adequate to return this property to its current condition in the event of a claim.”

A “single entity” policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that have been made inside the individual unit. If the unit

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interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

An “all-in” (sometimes known as an “all inclusive”) policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made. As such, a borrower is not required to have an HO-6 policy. If the unit interior improvements are not included under the terms of this policy type, however, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

A “bare walls” policy – the policy typically provides no coverage for the interior of the condominium unit which includes fixtures, equipment, and replacement of improvements and betterments. As a result, a borrower will also be required to obtain an HO-6 policy.

For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit.

Most units in PUD projects are insured as individual residences; therefore their insurance requirements are similar to those for single-family residences. However, if a project covers individual units with a master policy, the master policy is acceptable.

Table N-2-A: Attached Condo Requirements

Coverage	Criteria
Type of Policy	The master policy in the name of the condo association must cover all common elements, amenities, and the residential buildings.
Named Insured	Policy must be in the exact name of the association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage	All States Except CA: A liability policy of $1,000,000 minimum per any single occurrence is required
	CA projects (100 or fewer units): A liability policy of $2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of $3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of ‘umbrella’ or ‘additional liability’)
Hazard Coverage	Must cover 100% of the insured value and include a GRC Endorsement or a Replacement Cost Endorsement.

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Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must: • Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments
Expiration Date	The policies must not expire prior to funding.

Table N-2-B: PUD and Detached Condo Requirements

Coverage	Criteria
Type of Policy	PUD and detached condos usually carry master policies for common elements and amenities, but do not include the residences. Individual lots are usually covered by individual owner policies. Occasionally, however a PUD/detached condo association may carry a master policy that insures the residences. This type of master policy is an acceptable alternative to individual policies, but the policy must be reviewed to ensure proper coverage exists.
Named Insured	Policy must be in the exact name of the PUD/detached condo association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage	All States Except CA: A liability policy of $1,000,000 minimum per any single occurrence is required
	CA projects (100 or fewer units): A liability policy of $2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of $3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')
Hazard Coverage	No master policy verification is required. Each individual owner must provide a hazard insurance policy for the residence. If all hazard insurance is carried by the association's blanket policy that includes all the residences, the policy must cover 100% of the insurable value and must include an insurable value endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must:

	• Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments
Expiration Date	The policies must not expire prior to funding.

Site Condo – Insurance Requirements

When defining a site condo, the unit owner must be responsible for all insurance and maintenance costs, excluding landscaping.

A Site Condominium refers to:

- a Condominium Project that consists entirely of single-family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
  - o consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
  - o does not contain any Manufactured Housing units; and
  - o is encumbered by a declaration of condominium covenants or a condominium form of ownership.

The Unit owner must be responsible for all insurance and maintenance costs, excluding landscaping, of the Site Condominium.
Note: Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

Special Endorsements

The requirements for endorsements for PUD and condo projects are as follows:

- Inflation Guard Endorsement, when it can be obtained,
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land- use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.), and
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of $2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

Special Endorsements for Condo Projects Only

A Special Condo Endorsement is required if the policy doesn't provide that:

- Any Insurance Trust Agreement is recognized and the right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association.

The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Table N-2-C: Requirements for Name Insured

COVERAGE TYPE	REQUIRED FOR NAME INSURED

Condo Projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.

Loss Payee

CMG Mortgage, Inc.
ISAOA/ATIMA
3160 Crow Canyon Rd. Ste. 400
San Ramon, CA 94583

N-3 – Flood Insurance

Flood insurance required for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase. The determination of the flood zone is required by pulling a Standard Flood Hazard Determination. Flood insurance is required when the Flood Certification indicates one of the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible.

Acceptable Flood Insurance Policies

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program—are acceptable.

HUD Policy states private flood insurance will not satisfy FHA's National Flood Insurance Program (NFIP) flood insurance coverage requirement. The Department of Treasury published a final rule, effective July 1, 2019, that allows their regulated lending institutions to accept private flood insurance in lieu of an NFIP policy; however, this does not change FHA regulations. Flood insurance coverage exceeding FHA's NFIP flood insurance coverage requirement can be obtained.

Maximum Available through NFIP

The maximum insurance available under the appropriate National Flood Insurance Program (NFIP) is $250,000 per unit. This maximum also applies to condos and PUDs.

Required Coverage on a 1-4 Unit Dwelling

For Properties located within an SFHA, flood insurance must be maintained for the life of the Mortgage in an amount at least equal to the lesser of:

- the Appraiser's estimated replacement cost, less the Appraiser's estimated site value;
- the outstanding balance of the Mortgage; or
- the maximum amount of the NFIP insurance available with respect to the property improvements.

Deductibles

The deductible for 1-4 units, condos and PUD may not exceed a maximum of $5,000. Condo and PUD master policy deductibles cannot exceed a maximum of $25,000.

Part O – Title Insurance

O-1 – General Requirements

All loans must close with an ALTA title insurance policy which will provide evidence of the borrower's lawful interest in the property to be mortgaged.

The title policy must be in the CMG's name and /or its assigns. Title must be vested in the borrower's name, in the name of an eligible inter vivos trust (if permitted per program guides), or in the case of a purchase money must be currently vested in the seller's name with a requirement for a deed to be recorded transferring title to our borrower's name at closing.

The insured amount of the policy must be at least for the gross loan amount and the policy must be dated within 45 days of closing.

A survey will be required only if an exception appears on the title. ALTA 9 Endorsement, or its equivalent, may be substituted in the event a survey is not commonly required by the property area.

A minimum of a twelve month title chain must be provided on each policy. The chain of title will be reviewed for flips as part of the underwriting process.

O-2 – Title Company Requirements

Title companies must meet minimum standards with regards to their overall financial condition and ability to meet its credit obligations. Title Insurance companies must maintain an acceptable financial rating as defined by Fannie Mae.

O-3 – Closing Agent Requirements

All closing agents must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Errors and Omissions Insurance Policy. The minimum coverage limit is $500,000 per claim and $1,000,000 in aggregate with a deductible of no more than $5,000 per million. The policy must have valid effective dates.
- A Closing Protection Letter (CPL) from the title underwriter identifying the closing agent by name and address. A transaction specific CPL will be required on each transaction.
    - In the event the property is located in a state where closing protection letters are not issued by the insurer, a Fidelity Bond policy must be obtained. The bond must provide for a minimum of $1,000,000 in coverage and CMG must be named as a certificate holder on the policy.

Wiring Instructions must be provided with each closing transaction.

O-4 – Closing Attorney Requirements

All closing attorneys must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Copy of Business License
- Closing Protection Letter, if available in subject property state

Liability Insurance Policy. The minimum coverage is $1,000,000 with a deductible of no more than $5,000 per million. The declarations page must have valid effective dates and list the name of the attorney or firm name and address.

Part P – Departing Residence Policy

P-1 – Converting Current Primary Residence into Rental Property

CMG aligns with HUD requirements for departing residence:

If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Lender must obtain a lease agreement of at least one year's duration after the Mortgage is closed and evidence of the payment of the security deposit or first month's rent.

In addition, new requirements as outlined in Rental Income: Rental Income from Other Real Estate Holdings must be met. This includes the requirement that where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Lender must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Part Q – Transaction Types (Purchase and Refinances)

Q-1 – Purchase

Additional Chain of Title Considerations for Purchase Transactions (Second Appraisal, 90 Day Rule / "Flip" Transactions)

- **Second Appraisal:** Properties that have transferred ownership within the preceding 180 day period may require a second appraisal report. If the current re-sale price of the property exceeds the previous sales price by **100% or more,** a second appraisal report is required to support the current transaction value and may require additional documentation such as improvements to the property, etc. Properties being sold within 90 days of the sellers acquisition under an allowable standard exemption (see below) still require the second FULL FHA appraisal if the sales price has increased by 100% or more. Note: Resales by government sponsored enterprises are excluded from this second appraisal requirement.

- **90 Day Rule:** The property seller must have been the "owner of record" for a period of not less than the 90 days preceding the execution of the **sales contract** in order to be eligible for FHA-financing. See below for standard exemptions to the 90 day rule.

- **Standard Exemptions to the 90 Day Rule**: The following categories of properties are exempted from the 90-day restriction of re-sale.
  - Resales by:
    - Federal Government agencies,
    - State and Federally chartered financial Institutions and government-sponsored enterprises (i.e. Fannie Mae/Freddie Mac),
    - Local and State government agencies,
    - Nonprofits approved to purchase HUD REO properties at a discount,
    - Sales of properties within Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a Lender letter specific to said disaster)
    - New construction involving the builder,
    - Properties purchased by employer or relocation agency in connection with the relocation of an employee and
    - Properties acquired by inheritance are excluded

- Reminders on expired waivers to the 90-day restriction of re-sale:
  - **Subsidiaries/Vendors:** Temporary Waiver for property acquired through foreclosure by Lenders or by their subsidiaries or vendors to whom they have transferred title to the property for the purpose of effectuating the sale of those properties is EXPIRED as of 5/8/10 – That WAIVER NO LONGER PERMITTED. 90 day rule applies.
  - **Flip Waiver:** Was valid for sales contracts written between 2/1/10-12/31/14.

Non-Arms Length Transactions:

- Non-Arms-Length Transactions/Identity of Interest are purchase transactions in which there is a family relationship or business affiliation between the seller and the buyer of the property. Non-Arms Length Transactions are generally not allowed; to be eligible transaction must meet FHA guidelines and must receive exception approval (See Underwriting Exception Policy for authority level required). Bailouts not permitted. In addition, FHA sets special maximum LTVs to specific types of transactions that are considered non-arms length transactions such as "Identity of Interest."

FHA Identity of Interest (including LTV Limitations):

- An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members. Business Relationship refers to an association between individuals or companies entered into for commercial purposes.
- Maximum LTV for Identity-of-Interest and Tenant/Landlord Transactions
  - The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85 percent.
  - The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent.
- Exceptions to the Maximum LTV: The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances.
  - Family Member Transactions. The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence:
    - the Principal Residence of another Family Member; or
    - a Property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.
  - Builder's Employee Purchase
    - The 85 percent LTV restriction may be exceeded if an employee of a builder, who is not a Family Member, purchases one of the builder's new houses or models as a Principal Residence.
  - Corporate Transfer
    - The 85 percent LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee.
  - Tenant Purchase
    - The 85 percent LTV restriction may be exceeded if the current tenant purchases the Property where the tenant has rented the Property for at least six months immediately predating the sales contract.
    - A lease or other written evidence to verify tenancy and occupancy is required.

Renegotiated Purchase Contracts / Sales Incentives / IPCs

- **CMG Limit on Sales Incentive**: The maximum allowable sales incentive (commission, finder's fee, etc.) is limited to 8% of the sales price.
- **CMG Renegotiated Sales Contracts**: Generally renegotiated sales contracts are not allowed, however, minor adjustments due to condition or other relevant factors are permitted. Increasing of sales price after the appraisal is completed to provide seller credit is not permitted.
- Refer to Part S – Interested Party Contributions/ Sales Concessions/Financing Concessions

HUD Real Estate Owned Purchasing (HUD REO's - $100 Down, HUD Repo with Repair Escrow, GNND)

A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned home, refers to a one- to four-unit residential Property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured Mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the Mortgagee. An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a Borrower with a new FHA-insured Mortgage.

- Owner Occupied transactions only & Title Policy is required
- HUD $100 Down REO Purchase Program permitted. HUD REO w/ $100 Down eligible for 15 & 30 year terms only.
- Good Neighbor Next Door (GNND) permitted for properties insurable "As-Is" (HUD repo with repair escrow not permitted in conjunction with GNND). Good Neighbor Next Door eligible for 15 & 30 year terms only.
- HUD Repo with Repair Escrow Eligible. Up to $10,000 in repairs. Must meet all HUD requirements. May be combined with $100 down when all HUD requirements met; however, not permitted with GNND. Eligible for 15 & 30 year terms only.

Included in this section are:

Types of Insured HUD REO Property Purchase Programs

- **Section 203(b)** The HUD REO Property meets HUD's Minimum Property Requirements (MPR) in its as-is condition with no repairs, alterations, or inspections required.
- **Section 203(b) With Repair Escrow.** The HUD REO Property does not meet HUD's MPR in its as-is condition, but if repairs of no more than $10,000 are completed, the HUD REO Property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required. Cannot be combined with Good Neighbor Next Door. Max 30 day holdback period. Leaseholds not permitted. For additional requirements refer to Escrow Holdback Guideline Addendum.
- **Section 203(k).** The HUD REO Property does not qualify for Section 203(b) or Section 203(b) with Repair Escrow, and is eligible for FHA-insured financing only under Section 203(k). CMG does not originate/purchase 203(k) transactions.
- **Note:** CMG does not participate in financing investor, nonprofit or state and local government agency HUD REO purchases.

Special Sales Incentives associated with HUD REO purchases:

- **Good Neighbor Next Door.** The Good Neighbor Next Door (GNND) sales incentive permits an Owner-Occupant Borrower who is a full-time law enforcement officer, teacher, firefighter, or emergency medical technician who meets HUD requirements to purchase a specifically designated HUD REO

Property located in a HUD-designated Revitalization Area with FHA-insured financing at a 50 percent discount from the purchase price. When using FHA-insured financing, the Borrower may purchase the HUD REO Property with a minimum downpayment of $100 if offered by HUD. In addition, the Borrower may include in the mortgage amount customary and reasonable closing costs. CMG permits GNND purchases that are eligible to be processed as Section 203(b) only. CMG does not permit GNND with Section 203(b) with Repair Escrow or Section 203(k).

- **$100 Down Sales Incentive.**
  - The $100 Down sales incentive permits a Borrower to purchase a HUD REO Property with FHA-insured financing with a minimum downpayment of $100. Note: With Mortgagee Letter 2015-17 the Upfront Mortgage Insurance Premium may be financed with no restriction.
  - HUD $100 Down REO Purchase Program is permitted as either Section 203(b) or Section 203(b) with Repair Escrow. Must utilize REO product code. However, availability of Sales Incentive is dependent on the subject property state and HOC determines eligibility. Refer to the Resources section at the bottom left of the http://www.Hudhomestore.com page to see current HUD Home Sales incentives and lists of states currently offering the $100 down program.
  - Refer to Escrow Holdback Guideline Addendum, as applicable.
  - Refer to "Good Neighbor Next Door", as applicable

Sales Contract

- The Mortgagee must obtain form HUD-9548, *Sales Contract Property Disposition Program*, and any applicable addenda, which will establish the purchase price, price discount, eligibility for GNND and eligibility for $100 Down, and meet the requirements for the Sales Contract. An amendatory clause is not required in connection with HUD REO sales.

- **Contract Sales Terms.** Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the Borrower is applying, the downpayment, and the mortgage amount. Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, the Mortgagee must determine the eligibility of the Property, the eligibility of the Borrower, and the specific Insured HUD REO Property Purchase Program that must be used to finance the purchase.

- **Good Neighbor Next Door.** Where the Borrower is approved for the GNND sales incentive, Line 8 will specify the discount that will be applied to the purchase price on Line 3. The amount of the cash downpayment specified on Line 4 will be $100.
- **$100 Down.** Where the Borrower has been approved for the $100 Down sales incentive, the amount of the cash downpayment specified on Line 4 will be $100.
- **Closing Costs and Sales Commissions Paid by HUD.** The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the Borrower. The amounts on Line 6a and 6b represent the sales commissions HUD will pay to the selling and listing broker. Contributions by HUD toward the Borrower's closing costs are not defined as Interested Party Contributions (TOTAL or Manual) or Inducements to Purchase (TOTAL or Manual).

Ordering Case Numbers

- **Section 203(b) and Section 203(b) With Repair Escrow.** Mortgagees must order case numbers for Insured HUD REO Property Purchases in accordance with Ordering Case Numbers. Mortgagees must select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO Property in the Prior Case Number field. The HUD REO Property case number can be found on the top right-hand corner of form HUD-9548.

Appraisals

- **Section 203(b) and Section 203(b) With Repair Escrow.** Mortgagees must order a new appraisal. The Asset Manager REO Appraisal is used to establish list price only.
- **Appraisal Review and Property Acceptability.** The Mortgagee must review the appraisal and property conditions in accordance with standard FHA requirements for Underwriting the Property.

Maximum Mortgage Amounts

- **Section 203(b).** Mortgagees must calculate the maximum mortgage amounts in accordance with the requirements of Calculating Maximum Mortgage Amounts for Purchases, using the applicable Loan-To-Value ratio (LTV). The maximum LTV is 96.5 percent.

- **Section 203(b) With Repair Escrow.** Mortgagees must initially calculate the mortgage amount in accordance with the requirements for Section 203(b) above. Mortgagees must add to the amount resulting from that calculation the amount of an escrow account for the completion of repairs after closing. The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed $11,000. For additional requirements refer to Escrow Holdback Guideline Addendum.

- **Good Neighbor Next Door**
  - **Discounted Purchase Price.** Mortgagees must calculate the discounted purchase price and use that amount as the purchase price in determining the Adjusted Value for a 203(b) transaction. The discounted purchase price is calculated by reducing the contract sales price on Line 3 of form HUD-9548 by the discount percentage on Line 8 of form HUD-9548. To that amount the Mortgagee must add:
    - sales commissions from Line 6 of form HUD-9548; and
    - any Borrower-paid closing costs (including prepaid expenses).
  - **GNND as Section 203(b) with $100 Down Sales Incentive.** Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the Adjusted Value.

  Note: The CLTV must include the required second mortgage amount (which equals the discount amount).

- **$100 Down**
  - **Section 203(b).** Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the Adjusted Value.
  - **Section 203(b) With Repair Escrow.** Mortgagees must calculate the maximum mortgage amount by subtracting $100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed $11,000.

Additional Section 203(b) With Repair Escrow Requirements

- **FHAC Insuring Application.** The Mortgagee must check "Yes" in the Escrow Data field. The Mortgagee must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.
- For additional requirements refer to Escrow Holdback Guideline Addendum.

Additional GNND Requirements for FHAC Insuring Application

- **Repair Escrow.** If insured under Section 203(b) with Repair Escrow, the Mortgagee must check "Yes" in the Escrow Data field. The Mortgagee must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.
- **Sales Price.** Mortgagees must enter the discounted purchase price.
- **Secondary Financing.** Mortgagees must complete information regarding secondary financing by entering:
  - "Yes" in the Secondary Financing field;
  - the amount of the discount by which the sales price was reduced in the Amount field;
  - "Federal Government" in the Source of Funds field; and
  - "HUD GNND" in the Source Name field.
  - **$100 Down.** In the $100 REO Down Payment Program field, Mortgagees must enter "Yes."

Additional $100 Down Requirements for FHAC Insuring Application

- In the $100 REO Down Payment Program field, Mortgagees must enter "Yes."

Q-2 – Refinance – All Refinances

Refinance Overview & Types of Refinances

A Refinance Transaction is used to pay off the existing debt or to withdraw equity from the Property with the proceeds of a new Mortgage for a Borrower with legal title to the subject Property.

- **Cash-Out:** A Cash-Out Refinance is a refinance of any Mortgage or a withdrawal of equity where no Mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.
- **No Cash-Out:** A No Cash-Out Refinance is a refinance of any Mortgage in which the mortgage proceeds are limited to the purpose of extinguishing the existing debt and costs associated with the transaction. FHA offers three types of no cash-out refinances:
    - **Rate and Term:** Rate and Term refers to a no cash-out refinance of any Mortgage in which all proceeds are used to pay existing mortgage liens on the subject Property and costs associated with the transaction.
    - **Simple Refinance**. Simple Refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject Property and costs associated with the transaction.
    - **Streamline Refinance:** Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.
        - **Credit Qualifying:** The Mortgagee must perform a credit and capacity analysis of the Borrower, but no appraisal is required.
        - **Non-Credit Qualifying:** The Mortgagee does not need to perform credit or capacity analysis or obtain an appraisal.

- Snapshot of difference b/w Simple Refinance vs Rate-Term:
    - The following items are NOT permissible to be included in a Simple refinance Transaction:
        - The unpaid principal balance of any purchase money junior mortgage Disbursement;
        - The unpaid principal balance of any junior liens;
        - Ex-spouse or co-Borrower equity; and
        - Any prepayment penalties assessed.
    - In addition, Both SIMPLE & Streamline Refinances of loans endorsed prior to June 1, 2009 are eligible under the same lower premiums currently established for Streamlines.

CMG Ineligible Refinance Transaction Types / Programs

- Refinance of Borrowers in Negative Equity Positions (also known as Short Refinance):
    - A Borrower who is current on their non FHA-insured Mortgage may qualify for an FHA-insured refinance Mortgage provided that the Mortgagee or Investor writes off at least 10 percent of the unpaid principal balance of the existing first lien Mortgage. (See Refinance of Borrowers in Negative Equity Positions Program (Short Refi)).
- Refinances for the Purpose of Rehabilitation or Repair
    - A Borrower may refinance existing debts and obtain additional financing for purposes of rehabilitation and repair. (FHA's Section 203(k) program)
    - Refinancing of an Existing Section 235 Mortgage
- Texas Section 50(a)(6)

Adjusted Value Definition

For refinance transactions the Adjusted Value per definition is:

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

Borrower Eligibility / Continuity of Obligation

- At least one Borrower on the refinancing Mortgage must hold title to the Property being refinanced prior to case number assignment.

FHA-Insured to FHA-Insured Refinances (FHA-to-FHA)

- FHA-to-FHA refinances may be used with any refinance type. The Mortgagee must obtain a Refinance Authorization Number from FHA Connection (FHAC) for all FHA-to-FHA refinances. FHA will not issue a new case number for any FHA to FHA Refinance where the existing Mortgage to be paid off has a Repair or Rehabilitation escrow account that has not been electronically closed out in FHAC.
- Upfront Mortgage Insurance Premium Refunds. If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced Mortgage, according to the refund schedule shown in the Handbook.

General Property Eligibility

- Refer to "Ineligible Properties"

General Mortgage Eligibility – Refinance of mortgage subject to eminent domain condemnation or seizure

- CMG does not permit refinances of mortgage subject to eminent domain condemnation or seizure.

Temporary Interest Rate Buydowns.

- Temporary interest rate buydowns are not permitted with refinance transactions.

Summary Table of Refinance Options

	Cash Out	No Cash Out (max $500)		
		Rate & Term	**Simple**	**Streamline**
Underwriting	• TOTAL required • Appraisal required	• TOTAL required • Appraisal Required	• TOTAL Required • Appraisal Required	Manual Only – applies to both credit qualifying and non credit qualifying. No Appraisal.
Occupancy	• Owner-occupied Principal Residences only. • The Property must have been owned and occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.	• Owner-occupied Principal or • HUD-approved Secondary Residences.	• Owner-occupied Principal or • HUD-approved Secondary Residences.	• Streamline Refinances may be used for Principal Residences, HUD-approved Secondary Residences, or non-owner occupied Properties. • Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.
Max LTV	85%	• 97.75% for eligible Principal Residences • 85% for a Borrower who has occupied the subject Property as their Principal Residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the Property for that entire period of ownership; or • 85% for all HUD-approved Secondary Residences. Maximum Mortgage Amount Calculation Applies.	• 97.75% for Principal Residences; and • 85% for HUD-approved Secondary Residences. Maximum Mortgage Amount Calculation Applies.	Maximum Mortgage Amount Calculation Applies.
Max CLTV	85%	97.75%	• 97.75% Principal Residences; and • 85% t for HUD-approved Secondary Residences.	Although HUD has now specified there is no maximum CLTV for the Streamline Refinances, CMG caps CLTV at 125% for these transactions.
Loan to be refinanced	Any. No restriction.	Payoff any 1st Lien and eligible 2nd.	FHA to FHA Only	FHA to FHA Only
Seasoning	Owned and Occupied as principal residence for previous 12 months. In addition, GNMA loan seasoning requirements apply.	No specific requirement but LTV/CLTV based on Adjusted Value.	No specific requirement but LTV/CLTV based on Adjusted Value.	Specific requirements apply.

Q-3 – Refinance – Cash Out

Maximum Loan-to-Value (LTV)/ Maximum Combined Loan-to-Value (CLTV)

- The maximum LTV/CLTV is 80 percent of the Adjusted Value*.
- Nationwide Mortgage Limit: The combined mortgage amount of the first Mortgage and any subordinate liens cannot exceed the Nationwide Mortgage Limit described in National Housing Act's Statutory Limits.

*Refer to Section "Q-2: All Refinances" for Adjusted Value definition and additional requirements that apply to all refinances. Note: Adjusted Value calculation varies for properties acquired less than 12 months from case number assignment date.

Borrower Eligibility

- Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance.
- CAIVRS and Social Security Number verifications are required.

Occupancy Requirements

- Cash-out refinance transactions are only permitted on owner-occupied Principal Residences. The Property securing the cash-out refinance must have been owned and occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.

  Exception**:** In the case of inheritance, a Borrower is not required to occupy the Property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject Property as an Investment Property at any point since inheritance of the Property. If the Borrower rents the Property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the Property as a Principal Residence for at least 12 months.
- The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment.

Properties recently listed for sale:

- CMG requires that property must be off the market at least six months prior to the application.

Payment History & Seasoning Requirements

- The Mortgagee must document that the Borrower has made all payments for all their Mortgages within the month due for the previous 12 months or since the Borrower obtained the Mortgages, whichever is less.
- Additionally, the payments for all Mortgages secured by the subject Property must have been paid within the month due for the month prior to mortgage Disbursement.
- Properties with Mortgages must have a minimum of six months of Mortgage Payments. Properties owned free and clear may be refinanced as cash-out transactions.
- If the Mortgage on the subject Property is not reported in the Borrower's credit report or is not in the name of the Borrower, the Mortgagee must obtain a verification of Mortgage, bank statements or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.
- A Borrower who was granted mortgage payment forbearance must have:
  - completed the Forbearance Plan on the subject Property; and
  - made at least 12 consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

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Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the forbearance term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

- The Mortgagee must obtain the payoff statement for all existing Mortgages.
- All High Balance Loans: Maximum 0x30x12 mortgage history and must score Approve/Eligible
- **Seasoning Requirements:** Due to Ginnie Mae pooling restrictions for Cash-Out Refinance Loans all FHA cash out refinance transactions must meet additional seasoning requirement. Effective for CMG loans closed/purchased beginning February 1, 2018, FHA cash out loans are eligible if and only if:
  - the borrower made at least six consecutive monthly payments on the loan being refinanced, referred to hereinafter as the Initial Loan, beginning with the payment made on the first payment due date; and
  - the first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the Initial Loan.

Q-4 – Refinance – Rate & Term (No Cash Out)

Maximum Loan-to-Value Ratio – Rate & Term

The maximum LTV (based on the Adjusted Value*) for a Rate and Term refinance is:

- 97.75 percent for Principal Residences that have been owner-occupied for previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment;
- 85 percent for a Borrower who has occupied the subject Property as their Principal Residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the Property for that entire period of ownership; or
- 85 percent for all HUD-approved Secondary Residences.

*Refer to Section "Q-2: All Refinances" for Adjusted Value definition and additional requirements that apply to all refinances. Note: Adjusted Value calculation varies for properties acquired less than 12 months from case number assignment date.

Maximum Combined Loan-to-Value Ratio

- The maximum CLTV (based on Adjusted Value*) ratio for a Rate and Term refinance is 97.75 percent. For open-end line of credit the Mortgagee must utilize the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.

*Refer to Section "Q-2: All Refinances" for Adjusted Value definition and additional requirements that apply to all refinances. Note: Adjusted Value calculation varies for properties acquired less than 12 months from case number assignment date.

Calculating Maximum Mortgage Amount – Rate & Term

The maximum mortgage amount for a Rate and Term refinance is:

- the lesser of:
    - the Nationwide Mortgage Limit;
    - the maximum LTV based on the Maximum LTV Ratio from above; or
    - the sum of existing debt and costs associated with the transaction as follows:
        - existing debt includes:
            - the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
            - the unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
            - the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
            - ex-spouse or co-Borrower equity, as described in “Refinancing to Buy out Title Holder Equity” below;
            - interest due on the existing Mortgage(s);
            - the unpaid principal balance of any unpaid PACE obligation;
            - Mortgage Insurance Premium (MIP) due on existing Mortgage;
            - any prepayment penalties assessed;
            - late charges; and
            - escrow shortages;
        - allowed costs include all Borrower paid costs associated with the new Mortgage; and
        - any Borrower-paid repairs required by the appraisal;
- less any refund of the Upfront Mortgage Insurance Premium (UFMIP), if financed in the original Mortgage.

Maximum Mortgage Amount Additional Considerations for Rate & Term Refinances

Short Payoffs

- The Mortgagee may approve a Rate and Term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt, provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured Mortgage.

Refinancing to Buy Out Title-Holder Equity

- When the purpose of the new Mortgage is to refinance an existing Mortgage to buy out an existing title-holder’s equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. The Mortgagee must obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title-holder.

Refinancing to Pay off Recorded Land Contracts

- When the purpose of the new Mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance shall be deemed to be the outstanding balance on the recorded land contract.

Use of Estimates in Calculating Maximum Mortgage Amount – Cash to Borrower

- The Mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.

- Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

Excess Cash Back

- When the estimated costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's outstanding principal balance to satisfy the $500 cash back requirement. The Lender must submit the Mortgage for endorsement at the reduced principle amount.

Occupancy Requirements

- Rate and Term refinance transactions are only permitted on owner-occupied Principal Residences and HUD-approved Secondary Residences.
- The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property and determine the length of time the Borrower has occupied the subject Property as their Principal Residence.

Payoff Statement – Rate & Term

- The Mortgagee must obtain the payoff statement on all existing Mortgages.

Property listed for sale - R/T Refinance:

Recently listed properties must be off the market at least one day prior to application.

Payment History Requirements

- All High Balance Loans: Maximum 0x30x12 mortgage history and must score Approve/Eligible
- Manual Underwriting Requirements:
  - For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.
  - For all mortgages on all properties with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages.
  - A Borrower who was granted mortgage payment forbearance must have:
    - completed the Forbearance Plan on the subject Property; and
    - made at least three consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.
  - The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.
  - If the Mortgage on the subject Property is not reported in the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months.
  - Where a mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:
    - a copy of the modification or Forbearance Plan; and
    - evidence of the payment amount and dates of payments during the forbearance term.

A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Q-5 – Refinance - Simple Refinance (No Cash Out)

Occupancy Requirements

- Simple Refinance is only permissible for owner-occupied Principal or HUD-approved Secondary Residences.
- The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property as their Principal Residence.
- The Mortgagee must obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.

Payoff Statement

- The Mortgagee must obtain the payoff statement for the existing Mortgage being refinanced.

Payment History Requirements

- All High Balance Loans: Maximum 0x30x12 mortgage history and must score Approve/Eligible
- Manual underwriting requirements:
  - For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.
  - For all mortgages on all properties with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages.
  - A Borrower who was granted mortgage payment forbearance must have:
    - completed the Forbearance Plan on the subject Property; and
    - made at least three consecutive Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan
  - The Borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to Mortgage Disbursement.
  - If the Mortgage on the subject Property is not reported in the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months.
  - Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:
    - a copy of the modification or Forbearance Plan; and
    - evidence of the payment amount and date of payments during the forbearance term.

  A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Maximum LTV

- The maximum LTV (based on Adjusted Value*) ratio for a Simple Refinance is:
  - 97.75 percent for Principal Residences; and
  - 85 percent for HUD-approved Secondary Residences.

*Refer to Section "Q-2: All Refinances" for Adjusted Value definition and additional requirements that apply to all refinances. Note: Adjusted Value calculation varies for properties acquired less than 12 months from case number assignment date.

Maximum CLTV

- The maximum CLTV (based on Adjusted Value*) for a Simple Refinance is:
  - 97.75 percent for Principal Residences; and
  - 85 percent for HUD-approved Secondary Residences.

*Refer to Section "Q-2: All Refinances" for Adjusted Value definition and additional requirements that apply to all refinances. Note: Adjusted Value calculation varies for properties acquired less than 12 months from case number assignment date.

Calculating Maximum Mortgage Amount for Simple Refinance Transactions

- The maximum mortgage amount for a Simple Refinance is:
  - the lesser of:
    - the Nationwide Mortgage Limit;
    - the Maximum LTV ratio from above; or
    - the sum of existing debt and costs associated with the transaction as follows:
      - existing debt includes:
        - unpaid principal balance of the FHA-insured first Mortgage as of the month prior to mortgage Disbursement;
        - interest due on the existing Mortgage;
        - MIP due on existing Mortgage;
        - late charges; and
        - escrow shortages;
          - allowed costs include all Borrower paid costs associated with the new Mortgage; and
          - Borrower-paid repairs required by the appraisal;
        - less any refund of UFMIP (if financed in original Mortgage).

Use of Estimates in Calculating Maximum Mortgage Amount

- The Mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual debts and costs do not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.
- Cash to the Borrower resulting from the refund of Borrower's unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

Excess Cash Back

- When the estimated costs utilized in calculating the maximum mortgage amount resulted in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's outstanding principal balance to satisfy the $500 cash back requirement.

Upfront and Annual Mortgage Insurance Premium

- See Part M – Mortgage Insurance Premiums for assessing upfront and annual MIP

Q-6 – Refinance – Streamlines (No Cash Out)

Streamline Refinance may be used when the proceeds of the Mortgage are used to extinguish an existing FHA-insured first mortgage lien.
All Streamline Refinances are manually underwritten.

Streamline Refinance Exemptions: Non-Credit Qualifying Exemptions	**Streamline Refinance Exemptions: Credit Qualifying Exemptions**
• Unless otherwise stated in this Handbook 4000.1 the following sections of Origination through Post-Closing/ Endorsement do not apply to non-credit qualifying Streamline Refinances:	• The following sections of Origination through Post-Closing/ Endorsement do not apply to credit qualifying Streamline Refinances:
○ Ordering Appraisal ○ Transferring Existing Appraisal ○ Ordering Second Appraisal ○ Ordering an Update to an Appraisal ○ Borrower Minimum Decision Credit Score ○ Borrower and Co-Borrower Ownership and Obligation Requirements ○ Cosigner Requirements ○ Principal Residence in the United States ○ Military Personnel Eligibility ○ Citizenship and Immigration Status ○ Residency Requirements ○ Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt ○ Delinquent Federal Tax Debt ○ Property Eligibility and Acceptability Criteria ○ National Housing Act's Statutory Limits ○ Nationwide Mortgage Limits ○ LTV Limitations Based on Borrower's Credit Score ○ Underwriting the Property ○ Underwriting the Borrower Using the TOTAL Mortgage Scorecard ○ Credit Requirements (Manual) ○ Income Requirements (Manual) ○ Asset Requirements (Manual) ○ Underwriting of Credit and Debt (Manual) ○ Underwriting of Income (Manual) ○ Underwriting of Assets (Manual) ○ Calculating Qualifying Ratios (Manual) ○ Approvable Ratio Requirements (Manual) ○ Documenting Acceptable Compensating Factors (Manual)	○ Ordering Appraisal ○ Transferring Existing Appraisal ○ Ordering Second Appraisal ○ Ordering an Update to an Appraisal ○ Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt ○ Delinquent Federal Tax Debt ○ Property Eligibility and Acceptability Criteria ○ National Housing Act's Statutory Limits ○ Nationwide Mortgage Limits ○ LTV Limitations Based on Borrower's Credit Score ○ Underwriting the Property ○ Underwriting the Borrower Using the TOTAL Mortgage Scorecard

Application / Verbal VOE / Asset Documentation - Streamline

- CMG requires standard 1003 (application form). It must include borrower's current employer, address, phone number, borrower's job title and length of time on the job. Verbal Verification of Employment required.
- If assets are needed to close, assets must be acceptable plus be verified and documented in accordance with standard FHA requirements.

Borrower Credit Reports

- CMG will accept Mortgage only credit reports for non credit qualifying FHA Streamline refinances. A *full* credit report must be obtained for the credit qualifying Streamline Refinance.

Use of TOTAL Mortgage Scorecard on Streamline Refinances

- The Mortgagee must manually underwrite all Streamline Refinances. The Lender may score the Mortgage through TOTAL Mortgage Scorecard but the findings are invalid.

HUD Employee Mortgage

- For non-credit qualifying Streamline Refinances only, any HUD employee may have their Mortgage underwritten and approved/denied by the Mortgagee.

Reviewing Limited Denial Participation and SAM Exclusion Lists

- The Mortgagee must check the HUD Limited Denial of Participation (LDP) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.
- The Mortgagee must check the System for Award Management (SAM) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

Borrower Additions to Title

- Individuals may be added to the title and Mortgage on a non-credit qualifying Streamline Refinance without a creditworthiness review.

Funds to Close

- The Mortgagee must verify Borrower's funds to close, in excess of the total Mortgage Payment of the new Mortgage, in accordance with Sources of Funds.

Maximum Mortgage Amortization Period

- The maximum amortization period of a Streamline Refinance is limited to the lesser of:
  - the remaining amortization period of the existing Mortgage plus 12 years; or
  - 30 years.

Maximum Mortgage Calculation for Streamline Refinances

- For owner-occupied Principal Residences and HUD-approved Secondary Residences, the maximum Base Loan Amount for Streamline Refinances is:
    - the lesser of:
        - the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; plus:
            - interest due on the existing Mortgage;
            - Late Charges;
            - Escrow shortages; and
            - MIP due on existing Mortgage; or
        - the original principal balance of the existing Mortgage (including financed UFMIP);
    - less any refund of UFMIP (if financed in original Mortgage).

- For Investment Properties, the maximum Base Loan Amount for Streamline Refinances is:
    - the lesser of:
        - the outstanding principal balance of the existing Mortgage as of the month prior to mortgage Disbursement; or
        - the original principal balance of the existing Mortgage (including financed UFMIP);
    - less any refund of UFMIP

Use of Estimates in Calculating Maximum Mortgage Amount

- The Mortgagee may utilize estimates in calculating the maximum mortgage amount to the extent that the total mortgage amount does not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.
- Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous Mortgage must not be considered in the $500 cash back limit whether received at or subsequent to mortgage Disbursement.

Excess Cash Back

- When the estimates utilized in calculating the maximum mortgage amount resulted in greater than $500 cash back to the Borrower at mortgage Disbursement, Mortgagees may reduce the Borrower's outstanding principal balance to satisfy the $500 cash back requirement.
- The Mortgagee must obtain the payoff statement on the existing Mortgage.

Maximum CLTV Ratio and Subordinate Financing

- Existing Subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. CMG does not permit New Subordinate Financing with a refinance transaction regardless of HUD acceptance.
- Mortgagees must contact the National Servicing Center for processing of any HUD held lien subordination.

Streamline Refinance Non-Credit Qualifying

- Borrower Eligibility: A Borrower is eligible for a Streamline Refinance without credit qualification if all Borrowers on the existing Mortgage remain as Borrowers on the new Mortgage. Mortgages that have been assumed are eligible provided the previous Borrower was released from liability.

  Exception: A Borrower on the Mortgage to be paid may be removed from title and new Mortgage in cases of divorce, legal separation or death when:
    - the divorce decree or legal separation agreement awarded the Property and responsibility for payment to the remaining Borrower, if applicable; and
    - the remaining Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to case number assignment.

- CMG does not permit the use an abbreviated Uniform Residential Loan Application (URLA, Fannie Mae Form 1003/Freddie Mac Form 65) on non-credit qualifying Streamline Refinances, regardless of HUD acceptance.

Streamline Refinance Credit Qualifying

- Borrower Eligibility: At least one Borrower from the existing Mortgage must remain as a Borrower on the new Mortgage.
- Credit Underwriting: In addition to the requirements in this section, credit qualifying Streamline Refinances must meet all requirements of Manual Underwriting, except for any requirements for Appraisals or LTV Calculations

Assessing Upfront and Annual MIP

- See Part M – Mortgage Insurance Premiums for assessing upfront and annual MIP.
- For the purpose of calculating the MIP, FHA uses the original value of the Property to calculate the LTV.

Payment History Requirements – Non-Credit Qualifying

- For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due. For all mortgages on all properties with greater than six months of Mortgage Payment history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months. The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement.
- If the Mortgage on the subject Property is not reported in the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months.
- All High Balance Loans: Maximum 0x30x12 mortgage history.

  A Borrower who was granted mortgage payment forbearance on the subject Property is eligible for a non credit-qualifying Streamline Refinance and considered to have acceptable Mortgage Payment history provided that, at the time of case number assignment, the Borrower has:
  - completed the Forbearance Plan on the subject Property; and
  - made at least three consecutive monthly Mortgage Payments within the month due on the Mortgage since completing the Forbearance Plan.

Payment History Requirements – Credit Qualifying

For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For all mortgages on all properties with greater than six months of Mortgage Payment history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months.

The Borrower must have made the payments for all Mortgages secured by the subject Property within the month due for the month prior to mortgage Disbursement.

A Borrower who is still in mortgage payment forbearance at the time of case number assignment, or has made less than three consecutive monthly Mortgage Payments within the month due since completing the Forbearance Plan, is eligible for a credit qualifying Streamline Refinance provided the Borrower:

- made all Mortgage Payments within the month due for the six months prior to forbearance; and
- had no more than one 30-Day late payment for the previous six months.

Required Documentation: If the Mortgage on the subject Property is not reported in the Borrower's credit report, the Mortgagee must obtain a verification of Mortgage to evidence payment history for the previous 12 months.

Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- a copy of the Modification or Forbearance Plan; and
- evidence of the payment amount and date of payments during the agreement term.

Documentation of a Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Mortgage Seasoning Requirements

On the date of the FHA case number assignment:

- the Borrower must have made at least six payments on the FHA-insured Mortgage that is being refinanced (where the FHA-insured Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement);
- at least six full months must have passed since the first payment due date of the Mortgage that is being refinanced;
- at least 210 Days must have passed from the closing date of the Mortgage that is being refinanced; and
- if the Borrower assumed the Mortgage that is being refinanced, they must have made six payments since the time of assumption.

Net Tangible Benefit:

- A Net Tangible Benefit is a reduced Combined Rate, a reduced term, and/or a change from an ARM to a fixed rate Mortgage that results in a financial benefit to the Borrower.
- Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium (MIP) rate.

- The Lender must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions.

	TO		
From	**Fixed Rate New Combined Rate**	**One-Year ARM New Combined Rate**	**Hybrid ARM New Combined Rate**
Fixed Rate	At least 0.5 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.
Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.

- Reduction in Term. The net tangible benefit test is met if:
  - the mortgage term is reduced;
  - the new interest rate does not exceed the current interest rate; and
  - the combined principal, interest and MIP payment of the new Mortgage does not exceed the combined principal, interest and MIP of the refinanced Mortgage by more than $50.

<u>Occupancy Requirements</u>

- Streamline Refinances may be used for Principal Residences, HUD-approved Secondary Residences, or non-owner occupied Properties.
- The Mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence that the Borrower currently occupies the Property as their Principal Residence.
- The Mortgagee must obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.
- The Mortgagee must process the Streamline Refinance as a non-owner occupied Property if the Mortgagee cannot obtain evidence that the Borrower occupies the Property either as a Principal or Secondary Residence.
- Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.

Appraisal and Inspection Requirements on Streamline Refinances

- Appraisals are not required on Streamline Refinances. The receipt or possession of an appraisal by the Mortgagee does not affect the eligibility or maximum mortgage amount on Streamline Refinances.

Q-7 – New Construction

- Refer to the CMG Reference Document for FHA New Construction: Click Here

Q-8 Building on Own Land

CMG permits FHA's "Building On Own Land". With Mortgagee Letter 19-08 FHA provided clarification of and revised policy for Construction to Permanent (CP) and Building on Own Land (BOOL) programs as follows:

- clarified distinctions in policy between each program based on financing structure, and
- revised guidance for use of the Borrower's equity in land for the purpose of satisfying the Borrower's Minimum Required Investment (MRI) in both programs.

CMG does not participate in new construction one time close transactions. With the revisions, the Construction to Permanent (CP) program combines the features of a construction loan with that of a traditional long-term permanent residential Mortgage using a **single mortgage closing** prior to the start of construction. As a result, CMG does not participate in what is now classified in the Handbook as the Construction to Permanent program. See below for information on "Building on Own Land" option that now applies and is eligible.

Building on Own Land

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the Borrower and may include the extinguishing of any construction loans.

The Borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

Calculating Maximum Mortgage Amount: The Mortgagee must use the lesser of the appraised value or the documented Acquisition Cost to determine the Adjusted Value.

The maximum mortgage amount is calculated using the appropriate purchase Loan-to-Value (LTV) percentage of the lesser of the appraised value or the documented Acquisition Cost. The documented Acquisition Cost of the Property includes:

- the builder's price or the sum of all subcontractor bids and materials;
- Borrower-paid options and construction costs not included in the builder's price to build;
- interest and other costs associated with a construction loan obtained by the Borrower to fund construction, if applicable; and
- either of the following:
  - the lesser of the cost of the land, or appraised value of the land, if the land is owned six months or less at case number assignment;
  - or the appraised value of the land if the land has been owned for greater than six months at case number assignment or was received as an acceptable gift.

Minimum Required Investment: The Borrower may utilize any cash investment in the Acquisition Cost of the Property or land equity to satisfy the MRI in accordance with Calculating Maximum Mortgage Amount. The Mortgagee must document that the cash investment was from an acceptable source of funds in accordance with TOTAL or Manual Underwriting requirements as applicable.

If the land was given as a gift to the Borrower, the Mortgagee must verify that the donor was not a prohibited source. The Mortgagee must obtain standard gift documentation for any gift of land.

Borrower's Additional Equity in the Property: The Borrower may not receive cash back from the additional equity in the Property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. The Mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

Required Documentation: The Mortgagee must document the date of purchase of the land by obtaining the Closing Disclosure or similar legal document. The Mortgagee must obtain evidence that the funds used to pay Borrower- paid options were derived from an acceptable source. The Mortgagee must obtain an itemization of the options, and expenses, and cost of each item.

In addition, FHA's New Construction requirements also apply.

Reminder: CMG does NOT permit new construction manufactured homes

Part R – Secondary Financing

Any financing other than the first mortgage that creates a lien against the property is considered secondary financing even if it is a "soft"' or "silent" second (which has no repayment provision) or has other features forgiving the debt. The lender must obtain from the provider of any secondary financing, and include in each endorsement binder documentation evidencing the provision of the borrower's required minimum cash investment (also known as down payment assistance) from an eligible source, a copy of the Gift Letter showing the amount of funds provided to the borrower for that transaction, and copies of the loan instruments.

FHA reserves the right to reject any secondary financing that does not serve the needs of the intended borrower, or where the costs to the participant outweigh the benefits derived by the borrower. Costs incurred for participating in a down payment assistance secondary financing program may not be included in the amount of the first lien.

- For Purchase transactions, maximum CLTV is 100% of the Cost to Acquire if the secondary financing is from a Government Agency/HUD-approved Non-Profit considered in instrumentality of government. CMG will permit up to a max 110% CLTV based on lessor of purchase price/appraised value for DAP's eligible be used to cover the borrowers minimum 3.50% down payment requirement. The cost to acquire is defined as Sales Price + Borrower Paid Closing Costs + Discount Points + Pre-paid Expenses.
- For Refinance Transactions, New subordinate financing is not permitted on refinance transactions. Modified and existing subordinate liens are permitted within the max CLTV tolerance noted in the Loan Matrix. A copy of the subordinating Note, Mortgage/Deed and Subordination Agreement is also required.
- For Streamline Refinances refer to Part Q – Transactions – Refinances – Streamlines – Subordinate financing.

For more information on secondary financing requirements see Handbook 4000.1.

Part S – Interested Party Contributions (IPCs) / Financing Concessions / Sales Concessions

CMG Limit on Sales Incentive: The maximum allowable sales incentive (commission, finder's fee, etc.) is limited to 8% of the sales price.

CMG Renegotiated Sales Contracts: Generally renegotiated sales contracts are not allowed, however, minor adjustments due to condition or other relevant factors are permitted. Increasing of sales price after the appraisal is completed to provide seller credit is not permitted.

Principal Curtailments: For guidance on principal curtailments refer to CMG Policy: Principal Curtailment Matrix

HUD LIMIT on IPC: Interested Parties may contribute up to 6 percent of the sales price toward the Borrower's origination fees, other closing costs and discount points.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation. The funds derived from a premium priced Mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

Interested Party Contributions on the Settlement Statement

- The lender may apply Interested Party credits toward the Borrower's origination fees, other closing costs including any items Paid Outside Closing (POC), prepaid items, and discount points.
- The refund of the Borrower's POCs may be used toward the Borrower's MRI if the Lender documents that the POCs were paid with the Borrower's own funds.
- The Lender must identify the total Interested Party credits on the front page of the Settlement Statement or similar legal document or in an addendum.
- The Lender must identify each item paid by Interested Party Contributions.

Real Estate Tax Credits

Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs and other prepaid items at the time of underwriting.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

Part X - Links to CMG Policies, FHA Resources, Etc.

Related Guideline Addendums:

- CMG's FHA 203(h) Disaster Relief Guideline Addendum
- CMG's FHA/VA Manufactured Home Guideline Addendum
- Escrow Holdback Guideline Addendum

CMG Policies & Procedures: **Policy Quick Reference Guide**	Appraisal Requirements
	AUS Data Integrity
	Compliance State Guidance
	Disaster Area
	Electronic Signatures
	Exclusionary List
	HPML & HPCT Exception Policy
	Income Validation
	Principal Curtailment Matrix
	Second Level Review (Internal)
	Underwriting Exception (Internal)
	Undisclosed Debt

FHA Resources:	Online Handbook 4000.1
	FHA Lender Letters
	FHA FAQ (search by keyword)
	Handbook Glossary

Additional CMG Documents, Resources, Links:	Corporate Credit Tools and Resources (Internal)
	Derogatory Credit Matrix
	Escrow Holdback Guideline Addendum
	Gov't ARM Change Dates
	Leasehold Estate Checklist (Internal)
	New Construction Information
	NY Guideline Addendum
	Trust Review Checklist (Internal)

Part Y – Product Codes / Terms / ARM Information

Fixed Rate: 30, 25, 20 & 15 Year Terms*

Product Code	Short Description	Long Description
Standard Fixed Rate Product Codes (Standard Loan Amounts, excluding Streamline Refinances, & HUD REO using $100 Down Sales Incentive)		
3101*	30 YR FXD FHA	FHA 30 YEAR FIXED RATE LOAN
3125	25YR FXD FHA	FHA 25 YEAR FIXED RATE LOAN
3103	20YR FXD FHA	FHA 20 YEAR FIXED RATE LOAN
3102*	15 YR FXD FHA	FHA 15 YEAR FIXED RATE LOAN
Streamline Fixed Rate Product Codes (Standard Loan Amounts)		
3101 S	30Y FHA STREAM	30 YR FIXED FHA STREAMLINE
3125 S	25Y FHA STREAM	25 YR FHA FIXED STREAMLINE
3103 S	20Y FHA STREAM	20 YR FHA FIXED STREAMLINE
3102 S	15Y FHA STREAM	15 YR FHA FIXED STREAMLINE
Streamline Fixed Rate Product Codes (High Balance Loan Amounts)		
3101HB S	FHA HI BAL STR	30 YR FIXED FHA HIGH BAL STREAMLINE
3125HB S	25Y HI BAL STR	25 YR FHA FIXED HIGH BAL STREAMLINE
3103HB S	20Y HI BAL STR	20 YR FHA FIXED HIGH BAL STREAMLINE
3102HB S	15Y HI BAL STR	15 YR FIXED FHA HIGH BAL STREAMLINE
High Balance Fixed Rate Product Codes (Excluding high balance streamline refinance product codes)		
3101HB	30YR FXD FHA HB	FHA 30 YEAR JUMBO FIXED RATE HIGH BAL
3125HB	25YR FXD FHA HB	FHA 25 YEAR FIXED RATE LOAN HIGH BAL
3103HB	20YR FXD FHA HB	FHA 20 YEAR FIXED RATE LOAN HIGH BAL
3102HB	FHA 15 YR FX HB	FHA 15 YR FIXED RATE HIGH BAL
HUD REO Product Codes - $100 Down		
3101 REO*	30 YR FXD FHA	FHA 30 YEAR FIXED RATE LOAN $100 DOWN
3102 REO*	15 YR FXD FHA	FHA 15 YEAR FIXED RATE $100 DOWN

*Good Neighbor Next Door and HUD REO with $100 Down are eligible for 30 & 15 year terms only.

ARM: 5/1 Arm

Standard ARM Product Code	Short Description	Long Description
3151	5/1 FHA ARM	3151 5/1 FHA CMT ARM 30 YR
Streamline ARM Product Code	Short Description	Long Description
3151 S	5/1 FHA STREAM	5/1 FHA CMT ARM STREAMLINE
High Balance ARM Product Codes	Short Description	Long Description
3151HB	5/1 HB FHA ARM	3151 HB 5/1 FHA CMT ARM 30 YR

- Margin 2%
- Caps 1/1/5
- Index based 1 Year T-Bill (per WSJ)
- ARM Change Dates: ARM Change Dates

Note: Non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.

Part Z - Recent Updates / 90 Day Lookback

12/2/2021 –

VVOE section updated to reflect as follows:

- The VVOE or Electronic Verification of Employment must be obtained within 10 calendar days prior to the funding date for salaried income, and within 30 calendar days prior to the funding date for self-employment income.
  - *Electronic verification employment data must be current within 30 days of the date of verification.*

6/21/2021 –

CMG aligns with FHA's guidance on student loans. Mortgagee Letter (ML) 2021-13 provides revised student loan calculation requirements of the monthly payment obligation.

1/25/2021

- Effective January 19, 2021, the Federal Housing Administration (FHA) is permitting individuals classified under the "Deferred Action for Childhood Arrivals" program (DACA) with the U.S. Citizenship & Immigration Service (USCIS) and are legally permitted to work in the U.S. are eligible to apply for mortgages backed by the FHA.
- Clarified that the manual downgrade requirements in the undisclosed mortgage debt section of the guidelines applies to undisclosed mortgage debt. Manual downgrade requirements differ for mortgage debt considered in AUS vs undisclosed mortgage debt.