



FHA Underwriting Guidelines

Effective With Case Numbers Assigned On or After 9/14/15

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



DOCUMENT OVERVIEW

Purpose The following document describes the responsibilities and requirements of the Carrington Mortgage Services, LLC (CMS) Mortgage Lending Division Underwriter (Underwriter) when reviewing and underwriting Federal Housing Administration (FHA) mortgage loans with case numbers assigned on and after September 14, 2015.

Table of Contents

1. Origination/Processing	11
a. Applications and Disclosures	11
i. Contents of the Mortgage Application Package	11
ii. Disclosures and Legal Compliance	18
iii. Application Document Processing	20
b. General Mortgage Insurance Eligibility	27
i. Mortgage Purpose	27
ii. Borrower Eligibility	28
iii. Occupancy Types	35
iv. Property Eligibility and Acceptability Criteria	38
v. Legal Restrictions on Conveyance (Free Assumability)	48
2. Allowable Mortgage Parameters	49
a. Maximum Mortgage Amounts	49
i. National Housing Act's Statutory Limits	49
ii. Nationwide Mortgage Limits	50
iii. Financing of Upfront Mortgage Insurance Premium	51
iv. Calculating Maximum Mortgage Amounts on Purchases	51
b. Loan-to-Value Limits	51
i. LTV Limitations Based on Borrower's Credit Score (Applies to All Transactions)	51
ii. Purchase	51
iii. Refinance	54
iv. New Construction	54
c. Required Investment	54
i. Total Required Investment	54
ii. Minimum Required Investment	54
d. Maximum Mortgage Term	54
e. Mortgage Insurance Premiums	55
i. Upfront Mortgage Insurance Premium	55
ii. Annual (or Periodic) Mortgage Insurance Premium	55
3. Underwriting the Property	55
a. Property Acceptability Criteria	55
i. Defective Conditions	56
ii. Minimum Property Requirements and Minimum Property Standards	56

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



iii. Minimum Required Repairs.....	64
iv. Leased Equipment.....	64
v. Appraisal Review.....	64
vi. Quality of Appraisal.....	64
vii. Chain of Title.....	64
ix. Reconsideration of Value.....	64
b. Required Documentation for Underwriting the Property.....	65
c. Conditional Commitment Direct Endorsement Statement of Appraised Value.....	65
4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL).....	66
a. Underwriting with an Automated Underwriting System.....	66
i. Use of TOTAL Mortgage Scorecard.....	66
ii. Requirements for the Submission of Data through TOTAL Mortgage Scorecard.....	66
iii. Function of TOTAL Mortgage Scorecard.....	66
iv. Feedback Certificates: Risk Classification and Related Responsibilities (TOTAL).....	68
v. Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL).....	68
vi. Applicability of Automated Underwriting System Rules (TOTAL).....	69
vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring.....	69
b. Credit Requirements (TOTAL).....	69
i. General Credit Review Requirements (TOTAL).....	69
ii. Credit Reports (TOTAL).....	70
iii. Evaluating Credit History (TOTAL).....	71
iv. Evaluating Liabilities and Debts (TOTAL).....	77
c. Income Requirements (TOTAL).....	86
i. General Income Requirements (TOTAL).....	86
ii. Employment Related Income (TOTAL).....	87
iii. Primary Employment (TOTAL).....	89
iv. Part-Time Employment (TOTAL).....	89
v. Overtime, Bonus or Tip Income (TOTAL).....	90
vi. Seasonal Employment (TOTAL).....	90
vii. Employer Housing Subsidy (TOTAL).....	91
viii. Employed by Family-Owned Business (TOTAL).....	91
ix. Commission Income (TOTAL).....	92
x. Self-Employment Income (TOTAL).....	93
xi. Additional Required Analysis of Stability of Employment Income (TOTAL).....	94
xii. Other Sources of Effective Income (TOTAL).....	95
xiii. Unacceptable Sources of Income (TOTAL).....	108
d. Asset Requirements (TOTAL).....	109
i. General Asset Requirements (TOTAL).....	109
ii. Source Requirements for the Borrower's Minimum Required Investment (TOTAL).....	112
A Family Member may provide the Borrower's MRI in accordance with Section 203(b)(9)(B) of the National Housing Act.....	113

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- iii. Sources of Funds (TOTAL).....115
- iv. Unacceptable Sources of Funds (TOTAL).....133
- e. Final Underwriting Decision (TOTAL).....134
 - i. Documentation of Final Underwriting Review Decision (TOTAL).....134
 - ii. Conditional Approval (TOTAL).....135
 - iii. HUD Employee Mortgages (TOTAL).....135
 - iv. Notification of Borrower of Approval and Term of the Approval (TOTAL).135

- 5. Manual Underwriting of the Borrower136**
 - a. Credit Requirements (Manual).....136
 - i. General Credit Requirements (Manual).....136
 - ii. Types of Credit History (Manual).....136
 - iii. Evaluating Credit History (Manual).....140
 - iv. Evaluating Liabilities and Debts (Manual).....148
 - b. Income Requirements (Manual).....158
 - i. General Income Requirements (Manual).....158
 - ii. Employment Related Income (Manual).....158
 - iii. Primary Employment (Manual).....160
 - iv. Part-Time Employment (Manual).....161
 - v. Overtime, Bonus or Tip Income (Manual).....161
 - vii. Employer Housing Subsidy (Manual).....162
 - viii. Employed by Family-Owned Business (Manual).....163
 - ix. Commission Income (Manual).....164
 - x. Self-Employment Income (Manual).....164
 - xi. Additional Required Analysis of Stability of Employment Income.....166
 - xii. Other Sources of Effective Income (Manual).....167
 - xiii. Unacceptable Sources of Income (Manual).....180
 - c. Asset Requirements (Manual).....181
 - i. General Asset Requirements (Manual).....181
 - ii. Source Requirements for the Borrower’s Minimum Required Investment (Manual).....184
 - iii. Sources of Funds (Manual).....185
 - iv. Unacceptable Sources of Funds (Manual).....204
 - d. Final Underwriting Decision (Manual).....205
 - i. Duty of Care/Due Diligence (Manual).....205
 - ii. Specific Underwriter Responsibilities (Manual).....205
 - iii. Underwriting of Credit and Debt (Manual).....205
 - iv. Underwriting of Income (Manual).....206
 - v. Underwriting of Assets (Manual).....206
 - vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)206
 - vii. Calculating Qualifying Ratios (Manual).....206
 - viii. Approvable Ratio Requirements (Manual).....207
 - ix. Documenting Acceptable Compensating Factors (Manual).....208
 - x. Borrower Approval or Denial (Manual).....211

- 6. Closing.....213**

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- a. Mortgagee Closing Requirements213
 - i. Chain of Title.....213
 - ii. Title213
 - iii. Legal Restrictions on Conveyance (Free Assumability).....216
 - iv. Closing in Compliance with Mortgage Approval.....216
 - v. Closing in CMS’s Name216
 - vi. Required Forms216
 - vii. Certifications.....216
 - viii. Projected Escrow.....217
 - ix. Closing Costs and Fees.....217
 - x. Disbursement Date219
 - xi. Per Diem Interest and Interest Credits.....219
 - xii. Signatures219
- b. Mortgage and Note220
 - i. Definitions220
 - ii. Standard.....220
- c. Disbursement of Mortgage Proceeds220
 - i. Standard for Disbursement of Mortgage Proceeds220
 - ii. Required Documentation for Disbursement of Mortgage Proceeds220

7. Programs and Products221

- a. 203(k) Rehabilitation Mortgage Insurance Program221
 - CMS no longer offers 203(k) financing. This section is maintained for historical purposes.221
 - i. Overview221
 - ii. Borrower Eligibility.....221
 - iii. Property Eligibility221
 - iv. Application Requirements222
 - v. Case Number Assignment Data Entry Requirements222
 - vi. Standard 203(k) Transactions.....223
 - vii. Limited 203(k) Transactions.....227
 - viii. Appraisals for Standard 203(k) and Limited 203(k).....230
 - ix. Maximum Mortgage Amount for Purchase232
 - x. Maximum Mortgage Amount for Refinance232
 - xii. Mortgage Insurance Premium.....233
 - xiii. Underwriting234
 - xiv. Closing236
 - xv. Data Delivery.....238
- b. Disasters and 203(h) Mortgage Insurance for Disaster Victims239
 - i. Definition239
 - ii. Eligibility Requirements239
 - iii. Eligibility Documentation Requirements.....240
 - iv. Refinancing Policy.....241
 - v. Using Section 203(k) with 203(h) for Rehabilitation.....241
- c. Refinances241
 - i. Overview241

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



ii. General Eligibility.....	243
iii. Temporary Interest Rate Buydowns.....	244
iv. Upfront Mortgage Insurance Premium Refunds.....	244
v. Cash-Out Refinances.....	245
vi. No Cash-Out Refinances.....	246
d. New Construction.....	261
i. Definitions.....	261
ii. Eligible Property Types.....	261
iii. Required Inspections for New Construction Financing.....	261
iv. Required Documentation for New Construction Financing.....	263
vi. Documents to be Provided to Appraiser at Assignment.....	263
vii. Property Considerations.....	264
viii. Mortgagee Review of Appraisal.....	264
ix. Completion of Construction.....	266
e. Building on Own Land.....	266
i. Definition.....	266
ii. Eligibility.....	266
iii. Calculating the Maximum Mortgage Amount.....	267
iv. Minimum Required Investment.....	267
v. Borrower’s Additional Equity in the Property.....	267
vi. Required Documentation.....	267
f. HUD Real Estate Owned Purchasing.....	268
i. Definition.....	268
ii. Sales Contract and Required Supporting Documentation.....	269
iii. Ordering Case Numbers.....	270
iv. Appraisals.....	270
v. Occupancy Types.....	270
vi. Maximum Mortgage Amounts.....	270
vii. Additional Section 203(b) With Repair Escrow Requirements.....	271
vii. Additional \$100 Down Requirements for FHAC Insuring Application.....	271
g. Condominiums.....	272
i. Units Not Requiring Approval.....	272
ii. Requirements for Units in approved Condominium Projects.....	272
iii. Single-Unit Approval.....	279
iv. Site Condominium.....	291
8. 203(k) Consultant Requirements.....	292
a. Overview.....	292
b. Consultant Duties.....	292
i. Feasibility Study/Plan Review.....	292
ii. Consultant Inspection.....	292
iii. Architectural Exhibits.....	292
iv. Work Write-Up and Cost Estimate.....	292
v. Draw Request Inspection.....	293
vi. Change Order.....	293
vii. Work Stoppages or Deviations from the Approved Write-Up.....	293

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



c. Consultant Fee Schedule.....	293
i. Feasibility Study/Plan Review	293
ii. Work Write-up.....	293
iii. Draw Inspection Fee	293
iv. Change Order Fee	294
v. Re-inspection Fee.....	294
vi. Mileage Fee	294
d. Architectural Exhibit Review	294
e. Preparing the Work Write-Up and Cost Estimate.....	294
i. Conformance with Minimum Property Requirements or Minimum Property	294
ii. Health and Safety.....	294
f. Feasibility Study/Plan Review	295
g. Draw Request Inspection.....	295
h. Change Order	295
i. Additional Required Documentation.....	295
i. 203(k) Consultant’s Certification.....	295
ii. Consultant/Borrower Agreement.....	296
iii. Inspections and Draw Requests	296
iv. Change Order Requests	296
9. Commencement of the Appraisal.....	297
a. Information Required before Commencement of Appraisal	297
b. Additional Information Required Before Commencement of an Appraisal on New Construction	297
10. General Appraiser Requirements.....	298
11. Acceptable Appraisal Reporting Forms and Protocols	299
a. Additional Documentation Required for Appraisals of New Construction	299
b. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status	300
i. Existing Construction	300
ii. New Construction.....	300
iii. Determination of Defective Conditions	300
iv. Inspection by a Qualified Individual or Entity.....	301
c. Minimum Property Requirements and Minimum Property Standards.....	302
i. Legal Requirements.....	302
ii. Legal and Land Use Considerations	303
iii. Externalities	305
iv. Site Conditions	307
v. New Construction Site Analysis	311
vi. Excess and Surplus Land	311
vii. Characteristics of Property Improvements	312

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



d. Gross Living Area	315
i. Definition	315
ii. Required Analysis and Reporting	315
iii. Additions and Converted Space	315
iv. Partially Below-Grade Habitable Space	316
v. Bedrooms	316
e. Appliances	316
i. Definition	316
ii. Standard	316
iii. Required Analysis and Reporting	316
f. Swimming Pools	317
g. Utilities – Mechanical Components	317
i. Heating and Cooling Systems	318
ii. Electrical System	318
iii. Plumbing System	318
h. Roof Covering	319
i. Structural Conditions	319
j. Defective Paint	319
k. Attic Observation Requirements	319
l. Foundation	320
i. Basement	320
ii. Sump Pumps	320
m. Crawl Space Observation Requirements	320
n. Environmental and Safety Hazards	321
i. Lead-Based Paint	321
ii. Methamphetamine Contaminated Property	321
iii. Wood Destroying Insects/Organisms/Termites	321
o. Repair Requirements	322
i. Limited Required Repairs	322
ii. As-Is Condition and Cosmetic Repairs	322
iii. Defective Conditions Requiring Repair	322
iv. Conditions Requiring Inspection by a Qualified Individual or Entity	322
p. Utility Services	323
i. Definition	323
ii. Required Analysis and Reporting	323
iii. Public Water Supply Systems	323
iv. Community Water Systems	324
v. Individual Water Supply Systems	324
vi. Shared Wells	325
vii. Community Water Systems	326
q. Onsite Sewage Disposal Systems	326
i. Definition	326
ii. Required Analysis and Reporting	326

- 12. Valuation and Reporting Protocols.....327**
 - a. Photograph, Exhibits and Map Requirements327
 - b. Intended Use and Intended Users of Appraisal328
 - c. Development of the Market Value.....329
 - i. Value Required329
 - ii. Appraisal Conditions329
 - iii. Valuation Development330

- 13. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages.....340**
 - a. Definitions340
 - b. Standard340
 - c. Foundation Systems340
 - i. New Construction for Manufactured Housing340
 - ii. Existing Construction for Manufactured Housing.....341
 - d. Running Gear.....341
 - i. Definition341
 - ii. Standard.....341
 - iii. Required Analysis and Reporting341
 - e. Perimeter Enclosure342
 - i. Standard342
 - ii. Required Analysis and Reporting.....342
 - f. HUD Certification Label342
 - i. Definition342
 - ii. Standard.....342
 - iii. Required Analysis and Reporting342
 - g. Data Plate342
 - i. Definition342
 - ii. Standard.....342
 - iii. Required Analysis and Reporting342
 - h. Flood Zone.....343
 - i. Additions to Manufactured Housing343
 - j. Measurement Protocols343
 - k. Sales Comparison Approach for Manufactured Housing.....343
 - l. Estimate of Cost New for Manufactured Housing343

- 14. Condominium Projects344**
 - a. Definition344
 - b. Standard344
 - General Project Requirements344

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- c. Required Analysis and Reporting.....344
- d. Site Condominium345
 - i. Definition345
 - ii. Required Analysis and Reporting.....345
- e. Manufactured Housing Condominium Projects345
 - i. Standard345
 - ii. Required Analysis and Reporting.....345
- 15. Valuation of Leasehold Interests345**
 - a. Definition345
 - b. Standard345
 - c. Required Analysis and Reporting.....346
 - d. Mixed Use One- to Four-Unit Single Family Properties346
 - i. Definition346
 - ii. Required Analysis and Reporting.....346
- 16. Market Conditions Addendum, Fannie Mae Form 1004MC/Freddie Mac Form 71, Instructions Applicable to FHA Appraisals347**
 - a. Standard347
 - b. Required Analysis and Reporting347
- 17. Programs and Products348**
 - a. Standard 203(k) and Limited 203(k) Rehabilitation Mortgages348
 - i. Appraisal of the Property “As Is”348
 - ii. After Improved Value of the Property.....348
 - b. HUD Real Estate Owned Properties349
 - i. Definition349
 - ii. Standard.....349
 - iii. Required Analysis and Reporting349
 - iv. Appraisals for HUD Real Estate Owned Properties Purchased With a New FHA insured Mortgage (Effective for Case Numbers Assigned on or after March 14, 2016)352
- 18. Revision Summary353**

Revision Summary

See the [Revision Summary](#) section.

1. Origination/Processing

a. Applications and Disclosures

CMS must obtain a completed *Uniform Residential Loan Application (URLA)* from the Borrower and provide all required federal and state disclosures in order to begin the origination process. CMS is responsible for using the most recent version of all forms as of the date of completion of the form.

i. Contents of the Mortgage Application Package

CMS must maintain all information and documentation that is relevant to its approval decision in the mortgage file. All information and documentation that is required in these guidelines, and any incidental information or documentation related to those requirements, is relevant to CMS's approval decision.

If after obtaining all documentation required below, CMS has reason to believe it needs additional support of the approval decision; CMS must obtain additional explanation and documentation, consistent with information in the mortgage file to clarify or supplement the information and documentation submitted by the Borrower. Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

Document Images

CMS permits the use of any available technology to produce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to CMS in hardcopy or via email or other electronic means.

Document images must be typical of what the actual document would look like and must have good image quality, be legible, and not have borders showing phone/mobile background content.

(A) General Requirements

(1) Maximum Age of Mortgage Documents

(a) General Document Age

Documents used in the origination and underwriting of a Mortgage may not be more than 120 Days old at the Disbursement Date. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided, Day one is the Day after the effective or issue date of the document, whichever is later.

(b) Appraisal Validity

(i) Initial Appraisal Validity

The 120 Day validity period for an appraisal may be extended for 30 Days at the option of CMS if (1) CMS 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.

For purchase transactions, the valid sales contract is sufficient. Refinance transactions will require final DE approval on form 92900-A prior to the 30 Day extension. Any 30 Day extension granted must be noted on the loan transaction and the Conditional Commitment issued for 150 days.

Extending the appraisal requires Team Lead or Management approval.

(ii) Appraisal Update

CMS does not permit the use of an Appraisal Update. If the original appraisal has expired, or an extension as mentioned above is not granted, a new appraisal will be required.

(2) Handling of Documents

CMS 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.

CMS 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.

(a) Information Sent to CMS Electronically

CMS 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. CMS must document the name and telephone number of the individual with whom CMS verified the validity of the document.

(b) Information Obtained via Internet

CMS 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. CMS 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 CMS'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.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(3) Signature Requirements for all Application Forms

All Borrowers must sign and date the initial and final *Uniform Residential Loan Application* (URLA). 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.

- A Power of Attorney (POA) may not be used unless CMS verifies and documents that all of the requirements have been satisfied per the [CMS Power of Attorney Policy](#), and receive Underwriting Manager approval.

Prohibition on Documents Signed in Blank

CMS is not permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.

(4) Policy on Use of Electronic Signatures

(a) Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

(b) Use of Electronic Signatures

Electronic signatures are permitted on documents that are not included as part of the FHA Case Binder, with the exception of the Uniform Residential Appraisal Report (Mortgagee Letter 1995-50), and third-party documents such as the sales contract and contract addenda, FHA Amendatory Clause and FHA Real Estate Certification, which may be signed with an electronic signature. CMS is responsible for ensuring the security and authenticity of the electronic signature in conformity with all applicable federal laws.

The following table contains the documents, as applicable to the loan transaction, which may not contain an electronic signature:

Note: The exceptions are noted with “Electronic signature permitted.”

FHA Insurance Case Binder Document Requirements	
<ul style="list-style-type: none">• Uniform Residential Loan Application (URLA) (Electronic signature permitted)• Form HUD-92900-A, Addendum to URLA (Electronic signature permitted)• Credit history documentation• Asset Verification documentation (including gift letters and relevant documents)• Income verification documentation• Sales Contract (Electronic signature permitted)• Amendatory Clause executed by all parties (Electronic signature permitted)	<ul style="list-style-type: none">• Form HUD-92561, Borrower's Contract with Respect to Hotel and Transient Use of Property• Form HUD-92300, Mortgage Assurance of Completion• Form HUD-92051, Compliance Inspection Report, or other applicable documentation• Evidence of satisfaction of valuation conditions (if applicable)• Form NPCA-1, Wood Destroying

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



FHA Insurance Case Binder Document Requirements	
<ul style="list-style-type: none"> • Real Estate Certification executed by all parties (Electronic signature permitted) • All other contract addenda (Electronic signature permitted) • Automated Underwriting Feedback Certificate/Findings Report (if applicable) • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary , with supporting documents, such as: <ul style="list-style-type: none"> ○ Secondary lien exhibits ○ Buydown agreements ○ Attachments, memos and clarifications, if applicable • Copy of the Mortgage Note and all applicable riders and allonges 	<ul style="list-style-type: none"> • Insect Infestation Report , or State mandated infestation report, if applicable • Local Health Authority's Approval for individual water and sewer systems (if applicable) • Screen print of Insurance Application screen from FHA Connection showing that the insurance information was accepted by FHA Connection • Request for Late Endorsement, if applicable • Form HUD-92541, Builder's Certification • Form HUD-92544, Builder's Warranty of Completion

FHA Insurance Case Binder Document Requirements	
<ul style="list-style-type: none"> • Copy of the Security Instrument (Mortgage or Deed of Trust) with all applicable riders • HUD-1 Uniform Settlement Statement or Closing Disclosure, as applicable /Good Faith Estimate for pre-closing or Loan Estimate, as applicable • HUD-1 Addendum for purchases • Escrow Instructions, if applicable • Evidence of Social Security Number (such as on a printed pay stub, W-2, 1099, SS card, Medicare card, etc.) • Evidence of Tax Identification Number for non-profit borrowers • Form HUD-92800.5b, Statement of Appraised Value (Conditional Commitment), except as noted above • Uniform Residential Appraisal Report (URAR) (Electronic signature permitted) • Location map, and photographs of properties, building sketch 	<ul style="list-style-type: none"> • Inspection Report(s) • VA-26-1839 for the Department of Veteran Affairs (VA), Certificate of Reasonable Value (CRV) • VA 26-1843a, Master Certificate of Reasonable Value (MCRV) • HUD-approved local building authority inspection, if applicable • NPCA-99a and NPCA-99b, Subterranean Termite Treatment Report • VA CRV-VA-26-1841 and MCRV- VA-26-1843a, including all attachments and endorsements (if applicable)

(B) Mortgage Application and Initial Supporting Documentation

(1) URLA and HUD/VA Addendum to the URLA

Unless otherwise noted, *URLA* and *HUD/VA Addendum to the URLA* refer to both initial and final applications.

CMS must obtain the Borrower's initial complete, signed *URLA* (and page two of form HUD-92900-A before underwriting the mortgage application.

CMS must also include the debt of a non-borrowing spouse on the *URLA* if the Borrower resides in or the Property to be purchased is located in a community property state.

The loan originator identified on the *URLA* must be the actual licensed loan originator regardless of whether the loan originator is employed by a sponsored Third-Party Originator (TPO) or CMS. The *URLA* must contain the loan originator's name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number, and signature.

(2) Mortgage Application Name Requirements

(a) Standard

All mortgage applications must be executed in the legal names of all parties.

All mortgage applications must be executed in the name of one or more individuals.

(b) Required Documentation

CMS must include a statement that it has verified the Borrower's identity using valid government-issued photo identification prior to endorsement of the Mortgage or CMS may choose to include a copy of such photo identification as documentation.

(C) Borrower Authorization for Verification Information

(1) Borrower's Authorization

(a) Standard

CMS must obtain the Borrower's authorization to verify the information needed to process the mortgage application. CMS 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 CMS to verify their SSN with the Social Security Administration (SSA).

Third Party Verification (TPV) 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.

(b) Required Documentation

For each individual or Entity, Borrower authorization may be accomplished through a blanket authorization form.

(2) Form HUD-92900-A Part IV: Borrower Consent for Social Security Administration to Verify Social Security Number

CMS must obtain the Borrower's signature on Part IV of form HUD-92900-A to verify the Borrower's SSN with the SSA.

(3) Tax Verification Form or Equivalent

CMS must obtain the Borrower's signature on the appropriate Internal Revenue Service (IRS) form to obtain tax returns directly from the IRS for all credit-qualifying Mortgages at the time the final *URLA* is executed.

(D) Borrower's Authorization for Use of Information Protected under the Privacy Act

(1) Standard

CMS must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the Mortgage or Property securing the Mortgage, and relating to any insurance claim and ultimate resolution of such claims by CMS and FHA.

(2) Required Documentation

CMS must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

(E) Sales Contract and Supporting Documentation

(1) Sales Contract

(a) Standard

CMS must not originate an insured Mortgage for the purchase of a Property if any provision of the sales contract violates FHA requirements.

CMS 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 spouse of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.

(i) Amendatory Clause

If the Borrower does not receive form HUD-92800.5B, *Conditional Commitment Direct Endorsement Statement of Appraised Value*, before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause that contains the following language:

“It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than \$ _____*. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.”

*CMS must ensure the actual dollar amount of the sales price stated in the contract has been inserted in the amendatory clause. Increases to the sale price require a revised amendatory clause.

An amendatory clause is not required in connection with:

- HUD REO sales;
- FHA’s 203(k) mortgage program;
- sales in which the seller is:
 - Fannie Mae;
 - Freddie Mac;
 - U.S. Department of Veterans Affairs (VA);
 - United States Department of Agriculture (USDA) Rural Housing Services;
 - other federal, state, and local government agencies;
 - a Mortgagee disposing of REO assets; or
 - a seller at a foreclosure sale; or
- sales in which the Borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

(ii) Real Estate Certification

The Borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the sales contract are true and (2) any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

A separate certification is not needed if the sales contract contains a statement that (1) there are no other agreements between parties and the terms constitute the entire agreement between the parties, and (2) all parties are signatories to the sales contract submitted at the time of underwriting.

(iii) Property Assessed Clean Energy

Where the subject Property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to, closing.

(b) Required Documentation

CMS must obtain all signed copies of sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by Borrower and seller.

(2) Statement of Appraised Value

The Borrower must receive a copy of form HUD-92800.5B.

A statement of appraised value is not required in connection with:

- HUD REO sales;
- FHA's 203(k) mortgage program;
- sales in which the seller is:
 - Fannie Mae;
 - Freddie Mac;
 - the VA;
 - USDA Rural Housing Services;
 - other federal, state, and local government agencies;
 - a Mortgagee disposing of REO assets; or
 - a seller at a foreclosure sale; or

ii. Disclosures and Legal Compliance

(A) HUD Required Disclosures

CMS must provide or ensure the Borrower is provided with any disclosure required by FHA, including the following disclosures.

(1) Informed Consumer Choice Disclosure

CMS must provide the Borrower with an Informed Consumer Choice Disclosure in accordance with the requirements of 24 CFR § 203.10 if the Borrower may qualify for similar non FHA-insured mortgage products offered by CMS.

(2) Form HUD-92900-B, Important Notice to Homebuyers

CMS must provide the Borrower with a copy of form HUD-92900-B, *Important Notice to Homebuyers*, signed by the Borrower and provide the Borrower with a copy to keep for the Borrower's records when the Borrower applies for the Mortgage. CMS must retain the original form HUD-92900-B signed by the Borrower.

(3) Lead-Based Paint

If the Property was built before 1978, the seller must disclose any information known about lead-based paint and lead-based paint hazards before selling the house, in accordance with the HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CFR 745, subpart F). For such Properties, CMS must ensure that:

- the Borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards (“Protect Your Family From Lead In Your Home”);
- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
 - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1).
 - providing the seller’s disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
 - listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
 - affirming that the Borrower received the pamphlet, disclosure, and records or reports, above; and
- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller’s Lead Disclosure Rule obligations, the agent is aware of his/her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(4) Form HUD-92564-CN, For Your Protection: Get a Home Inspection

CMS is required to provide form HUD-92564-CN, *For Your Protection: Get a Home Inspection*, to prospective homebuyers at first contact, be it for prequalification, pre-approval, or initial application.

(B) Compliance with all Applicable Laws, Rules and Requirements

CMS is required to comply with all federal, state and local laws, rules, and requirements applicable to the mortgage transaction, including all applicable disclosure requirements and the requirements of the [Consumer Financial Protection Bureau \(CFPB\)](#), including those related to:

- Truth in Lending Act (TILA); and
- Real Estate Settlement Procedure Act (RESPA).

(C) Nondiscrimination Policy

CMS must fully comply with all applicable provisions of:

- Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- the Fair Credit Reporting Act, Public Law 91-508; and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

CMS must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, national origin, familial status, handicap, marital status, actual or perceived sexual orientation, gender identity, source of income of the Borrower, or location of the Property.

iii. Application Document Processing

(A) Mortgagee Responsibilities

CMS must order the FHA case number and perform any associated tasks in [FHA Connection \(FHAC\)](#). CMS remains responsible for the quality of the Mortgage and for strict compliance with all applicable FHA requirements.

(1) Sponsored Third-Party Originator

CMS is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved Mortgagees acting in the capacity of a sponsored TPO may have direct access to [FHAC](#).

(2) Excluded Parties

CMS may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a Limited Denial of Participation (LDP) that excludes their participation in FHA programs. CMS must ensure that no sponsored TPO or contractor engages such an Entity or person to perform any function relating to the origination of an FHA-insured Mortgage. CMS must check the [System for Award Management \(SAM\)](#), either directly or via DataVerify and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(B) Initial Document Processing

CMS begins processing the Mortgage by obtaining an initial *URLA* and Part V of form HUD-92900-A.

(1) Ordering Case Numbers

CMS must use [FHAC](#) to order FHA case numbers. A case number can be obtained only when CMS has an active mortgage application for the subject Borrower and Property.

In order to obtain a case number, CMS must:

- provide the subject Borrower's name, SSN, and date of birth;
- provide the property address; and
- certify that CMS has an active mortgage application for the subject Borrower and Property.

CMS is not required to input appraiser information at the time the case number is ordered.

(a) Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the Mortgage is to be insured. CMS must select the correct ADP code for each Mortgage in [FHAC](#).

(b) Case Numbers on Sponsored Originations

CMS will not be able to order case numbers for sponsored originations unless their sponsored TPO has been registered in [FHAC](#).

(2) Holds Tracking

If FHAC detects that a case number currently exists for the Property, a case number will not be assigned. CMS will receive notification that the case number assignment has been placed in Holds Tracking. CMS must review the Holds Tracking screen in FHAC to determine the necessary actions to obtain a case number.

(3) Canceling and Reinstating Case Numbers

(a) Canceling a Case Number

CMS may request cancellation of a case number by submitting a request to HUD. A case number will be cancelled only if:

- an appraisal has not been completed and the Borrower will not close the Mortgage as an FHA-insured Mortgage;
- the FHA mortgage insurance will not be sought; or
- the appraisal has already expired.

CMS must submit a request for cancellation to the FHA Resource Center at answers@hud.gov using the Case Cancellation Request Template.

(b) Automatic Case Number Cancellations

Case numbers are automatically cancelled after six months if one of the following actions is not performed as a last action:

- appraisal information entered;
- Firm Commitment issued by FHA;
- insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions.

Updates to the Borrower's name and/or property address, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP) do not constitute Last Action Taken.

(c) Reinstatement of Case Numbers

CMS may request reinstatement of cancelled case numbers by submitting a request to the FHA Resource Center using the Case Reinstatement Request Template.

Case numbers that were automatically cancelled will be reinstated only if CMS provides evidence that the subject Mortgage closed prior to cancellation of the case number, such as a Settlement Statement or Closing Disclosure, as applicable or similar legal document.

CMS must verify the validity of the case number, by completing Case Queries in FHAC at the time of Clear to Close (CTC).

(4) Transferring Case Numbers

(a) Requirements for the Transferring Mortgagee

The original Mortgagee must assign the case number to the new Mortgagee using the Case Transfer function in [FHAC](#) immediately upon the Borrower's request.

(b) Case Number Transfer Involving a Rejected Mortgage

If the transfer involves a rejected Mortgage, the original Mortgagee must complete the Mortgage Credit Reject function in [FHAC](#) prior to transferring the Mortgage.

Mortgage Credit Reject must be completed in the following cases:

- the file contains unverifiable information or documentation, or substantial inconsistencies that could not be resolved, or
- the loan does not meet FHA requirements that would result in denial of FHA Mortgage Insurance

(c) Case Number Transfer Involving a Sponsored Third-Party Originator

Where a case number is transferred to a new approved Mortgagee or sponsored TPO, the original Mortgagee, its authorized agent, or sponsored TPO that is also an FHA-approved Mortgagee must complete the appropriate sections in [FHAC](#) as described in the FHAC Guide – Case Processing Support Functions.

(5) Ordering Title Commitments

CMS must order a title commitment to ensure the Property will be properly titled and the Mortgage secured in accordance with FHA requirements.

(6) Ordering Appraisals

CMS must order a new appraisal for each Mortgage or refinance case number assignment and may not reuse an appraisal that was performed under another case number, even if the prior appraisal is not yet more than 120 Days old.

(a) Appraisal Integrity

CMS is responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Appraisers must comply with the Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule, when conducting appraisals of Properties intended as security for FHA-insured financing. In appraising any Property for the purpose of obtaining FHA mortgage insurance, the Appraiser must certify that they are capable of performing the appraisal because they have the necessary qualifications and access to all necessary data.

CMS must ensure that FHA is listed on the appraisal report as an Intended User of the appraisal.

(b) Appraiser Independence

CMS must ensure it does not compromise the Appraiser's independence.

CMS, or any third party specifically authorized by CMS, is responsible for selecting, retaining, and providing for payment of all compensation to the Appraiser. CMS or the authorized third party may not allow the Appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a Mortgagee or authorized third party's staff who is compensated on a commission basis tied to the successful completion of a Mortgage or who is not independent of CMS's mortgage production staff or processes or the authorized third party's staff or processes.

CMS must ensure that it does not:

- compensate the Appraiser at a rate that is not commensurate in the market area of the Property being appraised with the assignment type, complexity and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;
- prohibit the Appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an Appraiser;
- provide to the Appraiser, appraisal company, AMC or any Entity or person related to the Appraiser, appraisal company or AMC, stock or other financial or non-financial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a Mortgage financing transaction unless:
 - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the mortgage file; or
 - such appraisal or AVM was completed pursuant to written, pre-established bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and CMS adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;
- withhold or threaten to withhold future business from an Appraiser, or demote or terminate or threaten to demote or terminate an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- make expressed or implied promises of future business, promotions or increased compensation for an Appraiser in order to influence an Appraiser to arrive at a predetermined or desired value;
- allow the removal of an Appraiser from a list of qualified Appraisers or the addition of an Appraiser to an exclusionary list of qualified Appraisers, used by any Entity, without prompt written notice to such Appraiser. The notice must include written evidence of the Appraiser's illegal conduct, violation of USPAP or state licensing standards, improper or unprofessional behavior or other substantive reason for removal;
- request that an Appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an Appraiser provide estimated values or comparable sales at any time prior to the Appraiser's completion of an appraisal report;
- provide to the Appraiser an anticipated, estimated, encouraged or desired value for a subject Property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or
- perform any other act or practice that impairs or attempts to impair an Appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

(c) Additional Requirements When Ordering an Appraisal

CMS must provide to the selected Appraiser a complete copy of the subject sales contract including all addendums, land lease, surveys and other legal documents contained in the mortgage file necessary to analyze the Property.

CMS must disclose all known information regarding any environmental hazard that is in or on the subject Property, or in the vicinity of the Property, whether obtained from the Borrower, the real estate broker, or any other party to the transaction.

(7) Transferring Existing Appraisals

In cases where a Borrower has switched Mortgagees, the first Mortgagee must, at the Borrower's request, transfer the appraisal to the second Mortgagee within five business days. The Appraiser is not required to provide the appraisal to the new Mortgagee. The client name on the appraisal does not need to reflect the new Mortgagee. If the original Mortgagee has not been reimbursed for the cost of the appraisal, CMS is not required to transfer the appraisal until it is reimbursed.

The second Mortgagee may not request the Appraiser to re-address the appraisal.

If the second Mortgagee finds deficiencies in the appraisal, they must order a new appraisal.

Where a Mortgagee uses an existing appraisal for a different Borrower, CMS must enter the new Borrower's information in [FHAC](#). CMS 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.

(8) Ordering Second Appraisal

CMS is prohibited from ordering an additional appraisal to achieve an increase in value for the Property and/or the elimination or reduction of deficiencies and/or repairs required.

CMS may order a second appraisal for Mortgages that are in accordance with requirements on [Property Flipping](#).

(a) Second Appraisal by Original Mortgagee

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially deficient and the Appraiser is unable or uncooperative in resolving the deficiency. CMS must fully document the deficiency and status of the appraisal in the mortgage file. CMS must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- fraudulent statements or conclusions when the Appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

(b) 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.

(c) Use of Second Appraisal

For the first two cases outlined above, CMS 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.

(d) Required Documentation

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

b. General Mortgage Insurance Eligibility

i. Mortgage Purpose

FHA offers various mortgage insurance programs which insure approved Mortgagees against losses on Mortgages. FHA-insured Mortgages may be used to purchase housing, improve housing, or refinance existing Mortgages.

(A) Purchase

The Borrower may finance the purchase of an existing one- to four-unit residence.

Properties to be acquired through an **unrecorded** land contract must be treated as a purchase.

(B) Rehabilitation

(1) 203(k) Standard and Limited Rehabilitation Mortgages

The [Section 203\(k\) Rehabilitation Mortgage Insurance](#) is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance the outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
- purchase and rehabilitate the Structure and purchase the Real Property on which the Structure is located.

(C) Refinance

A refinance transaction is a new Mortgage for a Borrower with **legal title** on the same Property with the proceeds used to pay off any existing liens.

Types of Refinances

FHA insures several different types of refinance transactions:

1. No cash-out refinances of FHA-insured and non FHA-insured Mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.
2. Cash-out refinances are designed to pull equity out of the Property.
3. Refinances of non FHA-insured Mortgages are available for qualified Borrowers in negative equity positions (Short Refi). – Available for CMS serviced loans only
4. Refinances for rehabilitation or repair (Section 203(k)).

ii. Borrower Eligibility

(A) General Borrower Eligibility Requirements

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.

Ineligible Borrowers

A party who has a financial interest in the mortgage transaction, such as the seller, builder or real estate agent, may not be a co-Borrower or a Cosigner. Exceptions may be granted when the party with the financial interest is a Family Member. The following non-individual legal entities are ineligible borrowers:

- Corporations
- General Partnerships
- Limited Partnerships
- Real Estate Syndications
- Investment Trusts
- Trusts (including Inter-vivos and Living Trusts)
- Limited Liability Company (LLC)

(1) Social Security Number

(a) Standard

Each Borrower must provide evidence of their valid SSN to CMS.

(b) Required Documentation

CMS must:

- validate and document an SSN for each Borrower, co-Borrower, or Cosigner on the Mortgage by:
 - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through [FHAC](#); and
 - examining the Borrower's original pay stubs, W-2 forms, valid tax returns obtained directly from the IRS, or other document relied upon to underwrite the Mortgage; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during Mortgage processing and underwriting, and
- Process SSN verification through third party verification

Note: Each non-credit qualifying Streamline borrower must provide a copy of their Social Security card or another acceptable document as evidence of their valid Social Security Number. Acceptable documentation must include the borrower's valid Social Security Number but not include evidence of the borrower's income. Alternate sources could include the borrower's IRS 1098 Form from their current mortgage, school or military records, etc.

(c) Name Changes

In the case of a legal name change due to marriage, divorce, court order or any other reason, the borrower's name with the Social Security Administration (SSA) must match how the borrower will take title at loan closing. If there is a mismatch, the file may be uninsurable with HUD. CMS requires evidence the borrower initiated a name change with SSA with follow-up to provide a copy of the new SS Card.

(2) Previous Financial Crimes

By policy, CMS will not make a loan to any individual who has ever been convicted of a felony or within the past five (5) years if convicted of a misdemeanor where money or property was taken or used in an illicit manner. Guilty or No Contest pleas are included in this restriction. Examples of such crimes include but are not limited to fraud, embezzlement, forgery or identity theft.

(3) Borrower Minimum Decision Credit Score

(a) Definition

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where three differing scores are reported, the median score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score. Where only one score is reported, that score is the MDCS.

An MDCS is determined for each Borrower. Where the Mortgage involves multiple Borrowers, CMS must determine the MDCS for each Borrower, and then select the lowest MDCS for all Borrowers.

Where the Mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), CMS must select the lowest MDCS of the Borrower(s) with credit score(s). Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in [Manual Underwriting](#).

(b) Eligibility Standard

The Borrower is not eligible for FHA-insured financing if the MDCS is less than 500.

(4) 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 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.

(5) Limitation on Cosigners

Refer to the [Closing Policy](#).

(6) 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.

(7) Citizenship and Immigration Status

U.S. citizenship is not required for Mortgage eligibility.

(8) Residency Requirements

CMS must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable documentation. In no case is a Social Security card sufficient to prove immigration or work status. The following categories of individuals are eligible for FHA- insured financing in accordance with the requirements set forth below:

(a) Permanent Residents

(i) Standard

A Borrower with lawful permanent resident status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

(ii) Required Documentation

The mortgage file must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident on the *URLA*.

The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security (DHS) provides evidence of lawful, permanent residency status.

(b) Non-Permanent Residents

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

- the Property will be the Borrower's Principal Residence;
- the Borrower has a valid SSN;
- the Borrower is eligible to work in the United States, provided the borrower provides either:
 - an Employment Authorization Document (USCIS Form I-766) showing that work authorization status is current;
 - a USCIS Form I-94 evidencing H-1B status, and evidence of employment by the authorized H-1B employer for a minimum of one year;
 - evidence of being granted refugee or asylee status by the USCIS (see below); or
 - evidence of citizenship of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



If the Employment Authorization Document (USCIS Form I-766) or evidence of H-1B will expire within one year and a prior history of residency status renewals exists, CMS may assume that continuation will be granted. If there are no prior renewals, CMS 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 must provide documentation:

- Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee (EAD codes A03 or A04) or asylum status (EAD code A05), or
- USCIS Form I-797 notice indicating approval of a USCIS Form I- 589, Application for Asylum or Withholding of Removal substantiating the refugee or asylee status.
- **Note** – Asylum applicants with EAD code C08 or I-797 showing receipt of asylum application without approval are not acceptable nonimmigrant types.

Borrowers classified under Diplomatic Immunity, Temporary Protected Status (TPS, EAD classes A12 or C19), Deferred Enforced Departure (DED, EAD class A11), or Humanitarian Parole (EAD card states “Serves as I-512 Advance Parole”) are not eligible for FHA financing.

(c) Deferred Action for Childhood Arrivals (DACA, EAD class C33)

DACA allows certain undocumented immigrants who entered the country as minors to receive a renewable two-year period of deferred action from deportation and eligibility for a work permit. Individuals classified under DACA who are legally permitted to work in the U.S. are eligible to apply for mortgages backed by the FHA. DACA Employment Authorization Documents are eligible for FHA financing.

The following FHA requirements apply to all potential borrowers including DACA status recipients:

- the property will be the borrower’s principal residence;
- the borrower has a valid Social Security Number (SSN);
- the borrower is eligible to work in the U.S., as evidenced by the Employment Authorization Document issued by the USCIS; and
- the borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

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 lender must determine the likelihood of renewal based on information from the USCIS.

(9) Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt

(a) Standard

CMS is prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages.

CMS is required to determine whether the Borrowers have delinquent federal non-tax debt. CMS may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

(b) Verification

If a delinquent Federal Debt (including Department of Justice Criminal Restitution) is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, CMS must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, CMS must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Mortgage until the Borrower resolves the debt with the creditor agency.

CMS may not deny a Mortgage solely on the basis of CAIVRS information that has not been verified by CMS. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, CMS may continue to process the mortgage application.

(c) Resolution

In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

Delinquent federal non-tax debt may be paid through the loan closing transaction with verification the borrower has sufficient funds.

Note: the delinquent Federal Debt must be paid in full and the CAIVRS must be cleared before the borrower is eligible for an FHA-insured Mortgage.

(d) Required Documentation

CMS must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, CMS may obtain evidence of resolution by obtaining a clear CAIVRS report.

(10) Eligibility Period for Borrowers Delinquent on FHA-Insured Mortgages

If a Borrower is currently delinquent on an FHA-insured Mortgage, they are ineligible for a new FHA-insured Mortgage unless the delinquency is resolved.

(11) Delinquent Federal Tax Debt

(a) Standard

Borrowers with delinquent Federal Tax Debt are ineligible.

Federal tax debt that has not been converted to lien may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments, and the monthly payment is included in the Borrower's Debt-to-Income (DTI) ratio.

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 (3) months of payments. CMS must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

(b) Verification

CMS must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government.

(c) Required Documentation

CMS must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

(12) Valid First Liens

CMS must ensure that the mortgaged Property will be free and clear of all liens, except the insured Mortgage and any secondary liens permitted by FHA regulations at 24 CFR §§ 203.32 and 203.41.

(a) Consent of Non-Borrowing Spouses

If necessary to perfect a valid first lien under state law, CMS must require a non-borrowing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the Property.

(b) Tax Liens

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the Borrower has made timely payments for at least three (3) months of scheduled payments prior to closing. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three (3) months of payments. Except for federal tax liens, the lien holder must subordinate the tax lien to the FHA-insured Mortgage.

(B) Excluded Parties

CMS must establish that no participants are Excluded Parties and document the determination on form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

(1) Borrower

(a) Standard

A Borrower is not eligible to participate in FHA-insured mortgage transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.

(b) Required Documentation

CMS must check the HUD LDP list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

CMS must check SAM and follow appropriate procedures defined by that system to confirm eligibility for participation.

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

(2) Other Parties to the Transaction

(a) Standard

A Mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- seller (except where selling the Principal Residence)
- listing and selling real estate agent
- loan originator
- loan processor
- underwriter
- Appraiser
- 203(k) Consultant

(b) Required Documentation

CMS must check the HUD LDP list and SAM and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

iii. Occupancy Types

(A) Principal Residence

(1) Definition

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

(2) Standard

(a) FHA Requirement for Owner Occupancy

At least one Borrower must occupy the Property within 60 Days of signing the security instrument and intend to continue occupancy for at least one year.

[203\(k\) Rehabilitation products](#) may have different requirements for the length of time to occupy the Property.

(b) FHA-Insured Mortgages on Principal Residences

FHA will not insure more than one Property as a Principal Residence for any Borrower, except as noted below. FHA will not insure a Mortgage if it is determined that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining Investment Properties, even if the Property to be insured will be the only one owned using FHA mortgage insurance.

Properties previously acquired as Investment Properties are not subject to these restrictions.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(c) Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower

The table below describes the only circumstances in which a Borrower with an existing FHA-insured Mortgage for a Principal Residence may obtain an additional FHA-insured Mortgage on a new Principal Residence.

Policy Exceptions	Eligibility Requirements
Relocation	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.</p>
Increase in family size	<p>A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that:</p> <ul style="list-style-type: none"> • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.
Vacating a jointly-owned Property	<p>A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.</p>
Non-occupying co-Borrower	<p>A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for an FHA-insured Mortgage on a new Property to be their own Principal Residence.</p> <p>A Borrower with an existing FHA-insured Mortgage on their own Principal Residence may qualify as a non-occupying co-Borrower on other FHA-insured mortgages.</p>

(3) Required Documentation

The Borrower must indicate on the *URLA* that the Property will be the Borrower’s Principal Residence and certify to that fact on form HUD-92900-A, *HUD/VA Addendum to URLA*.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(B) Secondary Residence

(1) Definition

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.

(2) Standard

Secondary Residences are not eligible for FHA insurance.

(C) Investment Property

(1) Definition

An Investment Property refers to a Property that is not occupied by the Borrower as a Principal or Secondary Residence.

(2) Standard

Investment Properties are not eligible for FHA insurance.

iv. Property Eligibility and Acceptability Criteria

(A) General Property Eligibility

The Property must be located within the continental U.S.

(1) Special Flood Hazard Areas

CMS must determine if a Property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency (FEMA). CMS must obtain flood zone determination services, independent of any assessment made by the Appraiser to cover the Life of the Loan Flood Certification.

A Property is not eligible for FHA insurance if:

- a residential building and related improvements to the Property are located within any SFHA Zone beginning with the letter A, a Special Flood Zone Area, or any Zone beginning with the letter V, a Coastal Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within a Coastal Barrier Resources System (CBRS).

(a) Eligibility for Proposed or New Construction in SFHAs

If any portion of the dwelling, related Structures or equipment essential to the value of the Property and subject to flood damage is located within an SFHA, the Property is not eligible for FHA mortgage insurance unless CMS:

- obtains from FEMA a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor. The elevation certificate must document that the lowest floor including the basement of the residential building, and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and insurance under the NFIP is obtained.

Note: The same flood map number and Base Flood Elevation (BFE) referenced on the Flood Certification should match the Elevation Certificate.

(b) Eligibility for Existing Construction in SFHAs

When any portion of the residential improvements is determined to be located within an SFHA, insurance under the NFIP must be obtained.

(c) Eligibility for Condominiums in SFHAs

CMS must ensure the Homeowners' Association (HOA) obtains insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

(d) Eligibility for Manufactured Housing in SFHAs

The finished grade level beneath the Manufactured Home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures or equipment essential to the Property Value and subject to flood damage for both new and existing Manufactured Homes are located within an SFHA, the Property is not eligible for FHA mortgage insurance unless CMS obtains:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and
- insurance under the NFIP is obtained.

Note: When using a FEMA Elevation Certificate for manufactured housing in a flood zone, the Elevation Certificate must reflect all of the following:

- The same flood insurance rate map/panel number in section B4 as reported on the Flood Certificate in the file
- A Base Flood Elevation (BFE) in section B9 (if no BFE is developed, subject is not acceptable unless a LOMA/LOMR is issued)
- Lowest Adjacent Grade (LAG) in section C2.f that is greater than the reported Base Flood Elevation in section B9 (if no LAG is reported, subject is not acceptable unless a LOMA/LMOR is issued)
- Signature, seal, and all other identifying information in Section D for the certifying surveyor, engineer, or architect

(e) Required Flood Insurance Amount

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 outstanding balance of the Mortgage, less estimated land costs; or
- the maximum amount of the NFIP insurance available with respect to the property improvements.

(f) Required Documentation

CMS must obtain a Life of Loan Flood Certification for all Properties. If applicable, CMS must also obtain a:

- FEMA Letter of Map Amendment;
- FEMA Letter of Map Revision; or
- FEMA National Flood insurance Program Elevation Certificate (FEMA 086-0-33).

(g) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the Coastal Barrier Resources Act, a Property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the Coastal Barrier Resources System.

(2) Seller Must Be Owner of Record

(a) Standard

To be eligible for a mortgage insured by FHA, a Property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

(b) Required Documentation

CMS must obtain documentation verifying that the seller is the owner of record.

Such documentation may include, but is not limited to:

- a property sales history report;
- a copy of the recorded deed from the seller; or
- other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the Property and the date it was acquired.

This requirement applies to all FHA purchase money Mortgages, regardless of the time between re-sales.

(3) Restrictions on Property Flipping

Property Flipping is indicative of a practice whereby recently acquired Property is resold for a considerable profit with an artificially inflated value, often abetted by a Mortgagee's collusion with an Appraiser.

(a) Definition

Property Flipping refers to the purchase and subsequent resale of a Property in a short period of time.

(b) Standard

(i) Time Restriction on Transfers of Title

The eligibility of a Property for a Mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the Property and the date of execution of the sales contract that will result in the FHA-insured Mortgage.

FHA defines the seller's date of acquisition as the date the seller acquired legal ownership of that Property. FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the Property with an FHA-insured Mortgage.

If there is a partial continuity of ownership, a quit claim deed transaction is not a sale and is not subject to the rules prohibiting property flipping. The use of a quit claim will not be deemed a flip as long as at least one of the original owners retains an ownership interest in the property after the quitclaim is recorded.

(ii) Restriction on Re-sales Occurring 90 Days or Fewer After Acquisition

A Property that is being resold 90 Days or fewer following the seller's date of acquisition is not eligible for an FHA-insured Mortgage.

(iii) Re-sales Occurring Between 91 Days and 180 Days After Acquisition

CMS must obtain a second appraisal by another Appraiser if:

- the resale date of a Property is between 91 and 180 Days following the acquisition of the Property by the seller; and
- the resale price is 100 percent (100%) or more over the price paid by the seller to acquire the Property.

If the second appraisal supports a value of the Property that is more than 5 percent (5%) lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the Borrower.

(iv) Exceptions to Time Restrictions on Resale

Exceptions to time restrictions on resale are:

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- Re-sales by HUD under its REO program;
- sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
- sales of Properties by nonprofits approved to purchase HUD owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;
- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
- sales of Properties by local and state government agencies; and
- sales of Properties within PDMDAs, only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

(c) Required Documentation

CMS must obtain a 12 month chain of title documenting compliance with time restrictions on re-sales.

(4) Restriction on Investment Properties for Hotel and Transient Use

(a) Standard

CMS 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.

(b) Required Documentation

CMS must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property*, for each Mortgage where the Borrower owns:

- more than one Dwelling Unit (two to four); or
- a Single Family dwelling that is one of a group of five or more dwellings within a two block radius.

(5) Mixed Use of Property

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space. Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- a minimum of 51 percent (51%) of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential Property.

(B) Property Types

FHA's programs differ from one another primarily in terms of what types of Properties and financing are eligible. Except as otherwise stated, FHA's Single Family programs are limited to one- to four-family Properties that are owner-occupied Principal Residences. FHA insures Mortgages on Real Property secured by:

- detached or semi-detached dwellings
- Manufactured Housing (double wide or larger, and must be the only residence located on the subject property lot/parcel unless identified as an ADU)
- townhouses or row houses
- individual units within FHA-approved Condominium Projects
- planned unit development (PUD)

FHA will not insure Single Family Mortgages secured by:

- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- vacation homes
- fraternity and sorority houses

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Additionally, the following property characteristics represent ineligible collateral for CMS financing:

- mobile homes
- co-ops (cooperative homes or apartments)
- houseboats
- single wide manufactured homes
- commercial or industrial zoned properties
- mixed-use with residential building use less than 51% or not meeting the criteria as listed in these guidelines
- properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations,
- State-approved medical marijuana producing properties,
- construction to permanent,
- properties located in the area of Wrightwood, CA,
- properties containing more than one manufactured home unless specifically classified as an Accessory Dwelling Unit by the appraiser
- properties located within designated Coastal Barrier Resource System (CBRS) areas
- properties located on Tribal Lands or Reservations which include section 248
- Hawaiian properties in Lava Zones 1 and 2
- Native Hawaiian Housing Loan Guarantee Program (Section 184A)
- properties with sink holes
- properties with a wastewater stabilization pond/lagoon (aka sewage lagoon)
- properties with individual water purification systems required to make the water safe for human consumption (does not include systems installed to improve the taste or softness of the water)
- properties with deed restrictions (see [Legal Restrictions on Conveyance for exceptions](#))
- shared lots (including condominiums) with undivided interests
- time shares
- unimproved land
- working farm, ranch, or orchard

(1) One-Unit

A one-unit Property is a one-family dwelling.

(2) Two-Unit

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

CMS must obtain a completed form HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property*.

(3) Three- to Four-Unit

A three- to four-unit Property is a Single Family residential Property with three to four individual dwellings.

CMS must obtain a completed form HUD-92561.

Self-Sufficiency Rental Income Eligibility

(a) Definition

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).

(b) Standard

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent (100%) for three- to four-unit Properties.

(c) Calculation

Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent (25%) of the fair market rent.

(4) 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.

(5) Condominium Unit

(a) Definitions

Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a Condominium Project.

A Condominium Project refers to a project in which one-family Dwelling Units are attached, semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

(b) Standard

A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA's definition of a Site Condominium, or have completed the FHA Single Unit Approval process before a Mortgage can be insured.

(6) Site Condominiums

(a) Definition

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:
 - consists of Single Family detached or horizontally attached (townhouse) dwellings where the Unit consists of the dwelling and land;
 - does not contain any Manufactured Housing Units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Manufactured Housing condominium units may not be processed as Site Condominiums.

(b) Standard

The Unit owner must be responsible for all insurance and maintenance costs, excluding landscaping, of the Site Condominium.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(7) Manufactured Housing

(a) Definition

Manufactured Housing is a Structure that is transportable in one or more sections. It may be part of a Condominium Project, provided the project meets applicable FHA requirements.

A manufactured home is a factory-built home, constructed to the Federal Manufactured Construction and Safety Standards implemented June 15, 1976. The structure is transportable in one or multiple sections to the permanent site and is permanently affixed to the foundation and taxed as real estate.

Factory-built homes constructed prior to June 15, 1976 are classified as mobile homes and are not eligible for HUD Insuring or CMS financing

(b) Standard

To be eligible for financing with CMS, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the HUD Certification Label affixed or have obtained a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards;
- be classified as real estate
- be built and remain on a permanent chassis;
- be designed to be used as a dwelling with a permanent foundation built in accordance with the Permanent Foundations Guide for Manufactured Housing (PFGMH); and
- have been directly transported from the manufacturer or the dealership to the site.
- meet the requirements listing in [“Eligibility for Manufactured Housing in SFHAs”](#)
- the mortgage must cover both the manufactured home, and the site
- the maximum amortization term is 30 years

CMS will not extend financing on manufactured properties with the following:

- properties containing more than one manufactured home
- manufactured homes that do not meet FHA's guidelines as stated in the Permanent Foundations Guide for Manufactured Housing (PFGMH)
- manufactured homes that do not have the proper certifications
- manufactured homes that do not meet the criteria stated above
- manufactured homes with changes after leaving the factory and not being re-certified
- manufactured homes that have been relocated to a site other than transporting from the factory to the permanent foundation
- manufactured homes classified as mobile homes.
- manufactured homes that are considered Construction-Permanent (CP) loans and are proposed construction or under construction. CP loans combine the short-term interim financing for the cost of construction along with the long-term permanent financing.

(c) Required Documentation

(i) HUD Certification Label

If the appraisal indicates the HUD Certification Label is covered, illegible, or missing from the Manufactured Housing unit, CMS must obtain label verification from the Institute for Building Technology and Safety (IBTS).

(ii) PFGMH Certification

CMS must obtain a certification by an engineer or architect, who is licensed/registered in the state where the Manufactured Home is located, attesting to compliance with the PFGMH.

CMS may obtain a copy of the foundation certification from a previous FHA-insured Mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification, provided there are no alterations and/or observable damage to the foundation since the original certification.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



If the Appraiser notes additions or alterations to the Manufactured Housing unit, CMS must ensure the addition was addressed in the foundation certification.

If the additions or alterations were not addressed in the foundation certification, CMS must obtain:

- an inspection by the state administrative agency that inspects Manufactured Housing for compliance; or
- certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

(C) Property Valuation

CMS is responsible for obtaining an appraisal to verify the value of the Property and the Property's compliance with HUD's Minimum Property Standards (MPS).

(1) Integrity of Valuation Process: Communications with CMS

CMS must ensure the integrity of the valuation process by ensuring the valuation process is free from conflicts of interest and the appearance of conflicts of interest.

(a) Standard

CMS must prevent its staff, or any person who is compensated on a commission basis upon the successful completion of a Mortgage, or who reports, ultimately, to any officer of CMS not independent of the mortgage production staff and process, from having substantive communications with an Appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment. Normal communications necessary to processing of a case is permissible, but cannot attempt to influence the Appraiser.

The underwriter who has responsibility for the quality of the appraisal report is allowed to request clarifications and discuss with the Appraiser components of the appraisal that influence its quality.

(2) Communications with Third Parties

The underwriter may request a clarification or reconsideration of value from the Appraiser, following the requirements in [Reconsideration of Value](#). CMS may not discuss the contents of an appraisal with anyone other than the Borrower.

(3) Verifying HUD's Minimum Property Standards/Minimum Property Requirements

As the on-site representative for CMS, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which include HUD's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure.

v. Legal Restrictions on Conveyance (Free Assumability)

CMS must determine if there are any legal restrictions on conveyance in accordance with 24 CFR § 203.41.

Properties which will remain encumbered with a Property Assessed Clean Energy (PACE) obligation are not eligible for FHA mortgage insurance. Borrowers may use a Cash-Out Refinance or a No Cash-Out Refinance (Rate and Term, or Simple Refinance) to pay off the existing balance on any PACE obligation.

A Property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the Borrower from freely transferring the Property.

Such agreements are acceptable, provided they do not cause a conveyance (ownership transfer) of the insured Property by the Borrower to:

- be void, or voidable by a third party;
- be the basis of contractual liability of the Borrower (including rights of first refusal, pre-emptive rights or options related to a Borrower's efforts to convey);
- terminate or be subject to termination all or part of the interest held by the Borrower;
- be subject to the consent of a third party;
- be subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, "due on sale" clause, etc.);
- be grounds for accelerating the insured Mortgage; or
- be grounds for increasing the interest rate of the insured Mortgage.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the Real Property or restricting the transfer of the Real Property.

Legal restrictions on conveyance of Real Property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the Real Property, unless such provisions may be terminated at the option of, and with no cost to, the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the Property is subject to impermissible legal restrictions and is generally ineligible for FHA insurance.

Exception for Age Restrictions: the mortgaged property may be subject to protective covenants which prohibit or restrict occupancy by, or transfer to, persons who are not elderly if:

- The restrictions do not have an undue effect on marketability; and
- The restrictions do not constitute illegal discrimination and are consistent with the Fair Housing Act and all other applicable nondiscrimination laws.

2. Allowable Mortgage Parameters

This section provides the basic underwriting standards for Single Family (one to four units) Mortgages insured under the National Housing Act. When underwriting a Mortgage, CMS must determine the Borrower's creditworthiness, capacity to repay, and available capital to support the Mortgage. CMS must also examine the Property to ensure it provides sufficient collateral for the Mortgage.

For each Mortgage the Federal Housing Administration (FHA) insures, CMS must fully comply with the following underwriting procedures.

a. Maximum Mortgage Amounts

A Mortgage that is to be insured by FHA cannot exceed the [Nationwide Mortgage Limits](#), the nationwide area mortgage limit, or the maximum Loan-to-Value (LTV) ratio. The maximum LTV ratios vary depending upon the type of Borrower, type of transaction (purchase or refinance), program type, and stage of construction.

Under most programs, the maximum Mortgage is the lesser of the Nationwide Mortgage Limit for the area, or a percentage of the Adjusted Value.

For purchase transactions, the Adjusted Value is the lesser of:

- purchase price less any inducements to purchase; or
- the Property Value.

For refinance transactions:

- 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.

i. National Housing Act's Statutory Limits

The National Housing Act establishes the maximum Mortgage limits and the mortgage amounts for all FHA mortgage insurance programs.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



ii. Nationwide Mortgage Limits

Mortgage limits are calculated based on the median house prices in accordance with the statute. FHA's Single Family mortgage limits are set by Metropolitan Statistical Area and county and will be published periodically. FHA's Single Family mortgage limits are available by MSA and county, or by downloading a complete listing. FHA publishes updated limits effective for each calendar year.

These limits will be set at or between the low cost area and high cost area limits based on the median house prices for the area.

(A) Low Cost Area

The FHA national low cost area mortgage limits, which are currently set at 65 percent (65%) of the national conforming limit of \$510,400 (2020) / \$548,250 (2021) for a one-unit Property, are, by property unit number, as follows:

	2020	2021	2022
One-unit	\$331,760	\$356,362	\$420,680
Two-unit	\$424,800	\$456,275	\$538,650
Three-unit	\$513,450	\$551,500	\$651,050
Four-unit	\$638,100	\$685,400	\$809,150

(B) High Cost Area

For areas designated as high cost areas, the maximum FHA-insured mortgage limits (ceiling) by property unit number are as follows:

	2020	2021	2022
One-unit	\$765,600	\$822,375	\$970,800
Two-unit	\$980,325	\$1,053,000	\$1,243,050
Three-unit	\$1,184,925	\$1,272,750	\$1,502,475
Four-unit	\$1,472,550	\$1,581,750	\$1,867,275

(C) Special Exceptions for Alaska and Hawaii

Mortgage limits for the special exception areas of Alaska (AK) and Hawaii (HI) are adjusted by FHA to account for higher costs of construction. These four special exception areas have a higher ceiling as follows:

	2020	2021	2022
One-unit	\$1,148,400	\$1,233,562	\$1,456,200
Two-unit	\$1,470,475	\$1,579,500	\$1,864,575
Three-unit	\$1,777,375	\$1,909,125	\$2,253,700
Four-unit	\$2,208,825	\$2,372,625	\$2,800,900

iii. Financing of Upfront Mortgage Insurance Premium

Unless otherwise stated in these guidelines, restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP) (Base Loan Amount).

The total mortgage amount may be increased by the financed UFMIP amount.

iv. Calculating Maximum Mortgage Amounts on Purchases

The maximum mortgage amount that FHA will insure on a specific purchase is calculated by multiplying the appropriate LTV percentage by the Adjusted Value.

In order for FHA to insure this maximum mortgage amount, the Borrower must make a Minimum Required Investment (MRI) of at least 3.5 percent (3.5%) of the Adjusted Value.

b. Loan-to-Value Limits

The determination of the maximum LTV percentage available is influenced by:

- the particular mortgage insurance program (See [Programs and Products](#)); and
- the transaction type.

CMS must apply the lowest applicable LTV percentage as determined under the requirements in this section.

i. LTV Limitations Based on Borrower’s Credit Score (Applies to All Transactions)

CMS must review the credit report to determine the Borrower’s Minimum Decision Credit Score (MDCS).

The MDCS will be used to determine the maximum insured financing available to a Borrower with traditional credit.

The table below describes the relationship between the Borrower’s MDCS and the LTV ratio for which they are eligible. Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in [Manual Underwriting](#).

If the Borrower’s Minimum Decision Credit Score is...	Then the Borrower is...
at or above 580	eligible for maximum financing.
between 500 and 579	limited to a maximum LTV of 90%.

ii. Purchase

For purchase transactions, the maximum LTV is 96.5 percent (96.5%) of the Adjusted Value.

For special programs and products including refinances, the maximum LTV is determined in accordance with requirements listed in the [Programs and Products section](#).

(A) LTV Limitations Based on Identities of Interest

(1) Definitions

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.

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.
- cousins are NOT considered a family member

(2) 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 (85%).

The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent (85%).

(3) Exceptions to the Maximum LTV

The 85 percent (85%) maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances.

(a) Family Member Transactions

The 85 percent (85%) 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 occupancy is required.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



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.
- cousins are NOT considered a family member

(b) Builder's Employee Purchase

The 85 percent (85%) 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.

(c) Corporate Transfer

The 85 percent (85%) 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.

(d) Tenant Purchase

The 85 percent (85%) 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 occupancy is required. See [Rent Credits](#).

(B) LTV Limitations Based on Non-Occupying Borrower Status

(1) Definition

A Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the Property as their Principal Residence.

(2) Maximum LTV for Non-Occupying Borrower Transaction

For Non-Occupying Borrower Transactions, the maximum LTV is 75 percent (75%).

The LTV can be increased to a maximum of 96.5 percent (96.5%) 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.

iii. Refinance

For refinance transactions, the maximum LTV is determined in accordance with [Refinance](#) program specific requirements.

iv. New Construction

For New Construction transactions, the maximum LTV is determined in accordance with [New Construction](#) program specific requirements.

c. Required Investment

i. Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower's down-payment and the Borrower-paid transaction costs. The Total Required Investment includes the Minimum Required Investment (MRI).

ii. Minimum Required Investment

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9)(A) of the National Housing Act, which represents at least 3.5 percent (3.5%) of the Adjusted Value of the Property.

The refund of the Borrower's paid outside of closing (POC) credits may be used towards the MRI (i.e. appraisal, credit report or final inspection fees) if CMS documents that the POCs were paid with the Borrower's own funds (copies of checks clearance/documentable acceptable source).

Fees paid outside of closing (POC) by the Borrower such as closing costs, prepaid items and other fees may NOT be applied toward the Borrower's MRI. CMS is not permitted to use closing costs to the Borrower meet the MRI.

d. Maximum Mortgage Term

The maximum mortgage term may not exceed 30 years from the date that amortization begins. FHA does not require that mortgage terms be in five year multiples.

e. Mortgage Insurance Premiums

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium, also referred to as the periodic or monthly MIP, which is collected in monthly installments.

i. Upfront Mortgage Insurance Premium

(A) Upfront Mortgage Insurance Premium Amount

Most FHA mortgage insurance programs require the payment of UFMIP, which may be financed into the Mortgage. The UFMIP is not considered when calculating the area-based [Nationwide Mortgage Limits](#) and LTV limits.

The UFMIP charged for all amortization terms is 175 basis points (bps), unless otherwise stated in the applicable [Programs and Products](#) or in the [MIP Chart](#).

The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements.

However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

The mortgage amount must be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash.

(B) Refund and Credit of Upfront Mortgage Insurance Premium

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured Mortgage. See the [Refinances](#) Section.

ii. Annual (or Periodic) Mortgage Insurance Premium

The periodic MIP is an annual MIP that is payable monthly. The amount of the annual MIP is based on the LTV ratio, Base Loan Amount and the term of the Mortgage.

Calculation of the MIP

The MIP rate and duration of the MIP assessment period vary by mortgage term, Base Loan Amount, and LTV ratio for the Mortgage, as shown in the [MIP Chart](#).

3. Underwriting the Property

CMS must underwrite the completed appraisal report to determine if the Property provides sufficient collateral for the FHA-insured Mortgage. The appraisal and Property must comply with the requirements in [Appraiser and Property Requirements](#). The appraisal must be reported in accordance with [Acceptable Appraisal Reporting Forms and Protocols](#).

a. Property Acceptability Criteria

CMS must evaluate the appraisal and any supporting documentation to determine if the Property complies with HUD's Property Acceptability Criteria. Existing and New Construction Properties must comply with [Application of Minimum Property Requirements and Minimum Property Standards by Construction Status](#).

i. Defective Conditions

CMS must evaluate the appraisal in accordance with [Defective Conditions](#) to determine if the Property is eligible for an FHA-insured Mortgage. If defective conditions exist and correction is not feasible, CMS must reject the Property.

ii. Minimum Property Requirements and Minimum Property Standards

As the on-site representative for CMS, the Appraiser provides preliminary verification that a Property meets the Property Acceptability Criteria, which includes HUD's [Minimum Property Requirements \(MPR\) and Minimum Property Standards \(MPS\)](#).

Minimum Property Requirements refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of [New Construction](#).

When examination of a Property reveals noncompliance with the Property Acceptability Criteria, the Appraiser must note all repairs necessary to make the Property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, CMS may obtain an inspection from a qualified Entity to make the determination. CMS must use professional judgment in determining when inspections are necessary to determine that a property meets MPR or MPS.

CMS must confirm that the Property complies with the following eligibility criteria. If the Mortgage is to be insured under the 203(k) program, CMS must confirm that the Property will comply with the following eligibility criteria upon completion of repairs and improvements.

(A) Encroachment

CMS must ensure the subject's dwelling, garage, or other improvements do not encroach onto an adjacent Property, right-of-way, utility Easement, or building restriction line. CMS must also ensure a neighboring dwelling, garage, or other improvements do not encroach onto the subject Property. Encroachment by the subject or adjacent Property fences is acceptable provided such Encroachment does not affect the marketability of the subject Property.

(B) Overhead Electric Power

CMS must confirm that any Overhead Electric Power Transmission Lines do not pass directly over any dwelling, Structure or related property improvement, including pools. The power line must be relocated for a Property to be eligible for FHA-insured financing.

The residential service drop line may not pass directly over any pool, spa or water feature.

If the dwelling or related property improvements are located within the Easement area, CMS must obtain a certification from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and Local Distribution Lines conforms to local standards and is safe.

(C) Access to Property

CMS 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.

(D) Onsite Hazards and Nuisances

CMS must require corrective work to mitigate potential adverse effects from any onsite hazards or nuisances reported by the Appraiser.

(E) Abandoned Gas and Oil Well

If the Property contains any abandoned gas or oil wells, CMS 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, CMS 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.

(F) Requirements for Living Unit

CMS must confirm that each living unit contains:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; and
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

CMS must ensure that cabinets and built-in appliances that are considered Real Property are present and operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units. For Manufactured Housing requirements, see the [Manufactured Housing](#) section.

(G) Swimming Pools

CMS must confirm that any swimming pools comply with all local ordinances.

(H) Structural Conditions

CMS must confirm that the Structure of the Property will be serviceable for the life of the Mortgage.

CMS must confirm that all foundations will be serviceable for the life of the Mortgage and adequate to withstand all normal loads imposed.

(I) Economic Life

CMS must confirm that the term of the Mortgage is less than or equal to the remaining economic life of the Property.

(J) Environmental

CMS must confirm that the Property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

(K) Lead-Based Paint

CMS must confirm that the Property is free of lead paint hazards.

(L) Methamphetamine Contamination

If CMS or the Appraiser identifies a Property as contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Property is ineligible due to this environmental hazard until the Property is certified safe for habitation.

(M) Repair Requirements

CMS must determine which repairs must be made for an existing Property to be eligible for FHA-insured financing.

(N) Utility Services

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

(O) Water Supply Systems

(1) Public Water Supply System

CMS must confirm that a connection is made to a public or Community Water System whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing onsite systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

If the cost to connect to public or a Community Water System exceeds 3% of the Adjusted Value, connection is not required.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating that the water is unsafe.

(2) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, CMS 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.

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe;
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; or
- where the distance between the well and septic system is less than 100 feet.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

Requirements for the location of wells for FHA-insured Properties are located in 24 CFR § 200.926d (f) (3).

The following tables provide the minimum distance required between wells and sources of pollution for Existing Construction:

Individual Water Supply System for Minimum Property Requirements for Existing Construction*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to non-residential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum requirements for water wells:

Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority.

Water Wells Minimum Property Requirements for Existing Construction	
1	Existing wells must deliver water flow of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

(3) Shared Wells

CMS must confirm that a Shared Well:

- serves existing Properties that cannot feasibly be connected to an acceptable public or Community Water supply System;
- is capable of providing a continuous supply of water to involved Dwelling Units so that each existing Property simultaneously will be assured of at least three gallons per minute (five gallons per minute for Proposed Construction) over a continuous four-hour period. (The well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties.);
- provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA’s National Interim Primary Drinking Water Regulations;
- has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling without interrupting service to the other Properties; and
- serves no more than four living units or Properties.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe;
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; or
- where the distance between the well and septic system is less than 100 feet.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

For both proposed and existing Properties, CMS will require an attorney’s opinion letter to verify the Shared Well Agreement complies with the FHA’s requirements provided in the following table:

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joinder by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to “supplied” parties if the “supplying” party has no further need for the shared well system. (“Supplied” parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the shared well system without: <ul style="list-style-type: none"> • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for Proposed Construction) of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: <ul style="list-style-type: none"> • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection and disinfection; • system component replacement due to wear, obsolescence, incrustation or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party shall be responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: <ul style="list-style-type: none"> • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

(b) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority.

(P) Sewage System

CMS must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing Onsite Sewage Disposal Systems are acceptable provided they are functioning properly and meet the requirements of the local health department. When the Onsite Sewage Disposal System is not sufficient and an off-site system is available, CMS must confirm connection to an off-site sewage system.

When the Onsite Sewage Disposal System is not sufficient and an off-site system is not available, CMS must reject the Property unless the Onsite Sewage Disposal System is repaired or replaced and complies with local health department standards.

(Q) Termites

For existing Properties, CMS must confirm that the Property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, CMS must obtain such inspection and evidence of any required treatment to confirm the Property is free of wood destroying insects and organisms.

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.

(R) Property Assessed Clean Energy (PACE) Assessments

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements for residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the Property. In the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation will continue with the Property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished.

Properties which will remain encumbered with a PACE obligation are not eligible for FHA mortgage insurance. Borrowers may use a Cash-Out Refinance or a No Cash-Out Refinance (Rate and Term, or Simple Refinance) to pay off the existing balance on any PACE obligation.

iii. Minimum Required Repairs

When the appraisal report or inspection from a qualified Entity indicates that repairs are required to make the Property meet HUD's MPR or MPS, CMS must comply with [Repair Requirements](#).

If repairs for Existing Construction cannot be completed prior to closing, CMS may establish an escrow account in accordance with [Repair Completion Escrow Requirements](#).

iv. Leased Equipment

CMS must ensure that the Property Value does not include the value of any equipment, including an energy system, which is not fully owned by the Borrower. CMS must review the terms of the lease on any equipment to ensure they do not contain any [Legal Restrictions on Conveyance](#) (Free Assumability).

v. Appraisal Review

CMS must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the Property.

vi. Quality of Appraisal

CMS must evaluate the appraisal and ensure it complies with the requirements in [Valuation and Reporting Protocols](#), any additional appraisal requirements that are specific to the subject Property, and complies with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws.

vii. Chain of Title

CMS must review the appraisal to determine if the subject Property was sold within 12 months prior to the case number assignment date. If the subject Property was sold within the previous 12 months CMS must review evidence of prior ownership and determine if there are any undisclosed Identity-of-Interest transactions, and for compliance with [Restrictions on Property Flipping](#).

viii. Opinion of Market Value

CMS must ensure the Market Value of the Property is sufficient to adequately secure the FHA-insured Mortgage.

ix. Reconsideration of Value

The underwriter may request a reconsideration of value when the Appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the Appraiser with all relevant data that is necessary for a reconsideration of value.

The Appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the Appraiser inspected the Property.

b. Required Documentation for Underwriting the Property

If additional inspections, repairs or certifications are noted by the appraisal or are required to demonstrate compliance with Property Acceptability Criteria, CMS must obtain evidence of completion of such inspections, repairs or certifications.

c. Conditional Commitment Direct Endorsement Statement of Appraised Value

The Conditional Commitment Direct Endorsement Statement of Appraised Value (form HUD-92800.5B) provides the terms upon which the commitment/direct endorsement statement of appraised value is made and the specific conditions that must be met before HUD can endorse a Firm Commitment for mortgage insurance. The underwriter must complete form HUD-92800.5B as directed in the form instructions.

Where a Statement of Appraised Value is required, CMS must provide the Borrower with a copy of the completed form HUD-92800.5B.

4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)

a. Underwriting with an Automated Underwriting System

FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard is not an Automated Underwriting System (AUS) but a scorecard that must interface through a system-to-system connection with an AUS.

Each AUS using TOTAL Mortgage Scorecard provides a Feedback Certificate/Finding Report, which documents results of the credit risk evaluation, and identifies the credit report utilized for the scoring event. The Feedback Certificate/Finding Report upon which CMS makes its underwriting decision prior to endorsement must be included in the case binder.

i. Use of TOTAL Mortgage Scorecard

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions and assumptions.

If the Mortgage involves a HUD employee, CMS must score the transaction through TOTAL. If the file receives an Accept, CMS must underwrite the transaction in accordance with the guidance in these Underwriting Guidelines using the TOTAL Mortgage Scorecard section. CMS must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the [Final Underwriting Decision](#).

ii. Requirements for the Submission of Data through TOTAL Mortgage Scorecard

CMS must submit data to TOTAL Mortgage Scorecard through an approved AUS vendor in a data format acceptable to the AUS vendor, to meet the requirements described in the TOTAL Mortgage Scorecard Developer's Guide.

If the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard, the file must be manually underwritten.

iii. Function of TOTAL Mortgage Scorecard

TOTAL Mortgage Scorecard evaluates the overall credit risk posed by the Borrower, based on a number of credit variables, when combined with the functionalities of an AUS.

CMS may not accept or deny an FHA-insured Mortgage based solely on a risk assessment generated by TOTAL Mortgage Scorecard.

CMS must ensure full compliance with all FHA eligibility requirements, and all requirements of this section. CMS must verify the information used to score the Mortgage through TOTAL but does not need to analyze the credit history, unless otherwise stated in this section, if an Accept or Approve recommendation is received.

The underwriter must still underwrite all appraisals according to standard FHA requirements.

The underwriter must fully underwrite those applications where the AUS issues a Refer.

The underwriter must manually underwrite any mortgage file where additional information, not considered in the AUS recommendation, affects the overall insurability of the mortgage.

(A) Automated Underwriting System Data Entry Requirements

(1) Mortgagees

CMS must verify the integrity of all data elements entered into the AUS to ensure the outcome of the Mortgage credit risk evaluation is valid including:

- Borrower's Credit Report
- Borrower's Liabilities/Debt
- Borrower's Effective Income
- Borrower's Assets/Reserves
- Adjusted Value
- Borrower's total Mortgage Payment including Principal, Interest, Taxes, and Insurance (PITI)

The Borrower's total Mortgage Payment includes:

- Principal and Interest (P&I);
- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- Mortgage Insurance Premium;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

CMS may deduct the amount of the Section 8 Homeownership Voucher if it is paid directly to the Servicer. Where real estate taxes are abated, CMS may use the abated amount provided that (1) CMS can document the abated amount with the taxing authority and (2) the abatement will remain in place for at least the first three years of the Mortgage.

(2) Sponsored Third-Party Originators

CMS may permit a sponsored TPO to enter data into the AUS. Both CMS and its sponsored TPO must ensure and verify all data entered into the AUS. CMS remains ultimately responsible for ensuring the data entered into the AUS is correct.

CMS must ensure the Employer Identification Number (EIN) of its sponsored TPO is entered into the AUS. If CMS is using an AUS that is unable to transmit the sponsored TPO EIN, CMS must enter "6999609996" in the Lender ID field.

(B) New Versions of TOTAL Mortgage Scorecard

From time to time, FHA will release new versions of TOTAL Mortgage Scorecard.

FHA will announce the date that the new version will be available. All Mortgages being scored for the first time will be scored using the new version. For Mortgages with a case number, the Mortgages will be scored using the version that was effective when the case number was assigned. Existing Mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All Mortgages without a case number will be scored using the new version 90 Days after the new version is implemented.

iv. Feedback Certificates: Risk Classification and Related Responsibilities (TOTAL)

If the Feedback Certificate/Finding Report shows an Accept or Approve, it will be referred to as Accept.

(A) Accept/Eligible

If the Feedback Certificate/Finding Report shows an Accept/Eligible recommendation, the Mortgage may be eligible for FHA's insurance endorsement provided CMS verified that data entered into the AUS is accurate and complete and that the entire mortgage application complies with all FHA requirements.

CMS must verify that all supporting documentation and information entered into TOTAL Mortgage Scorecard is consistent with the final underwriting decision if the Mortgage receives an Accept/Eligible.

(B) Accept/Ineligible

If the Feedback Certification/Finding Report shows an Accept/Ineligible recommendation, the Borrower's credit and capacity would meet the threshold for approval, but the Mortgage does not fully comply with FHA's eligibility requirements. The Feedback Certificate will identify the specific eligibility requirement that the Mortgage does not meet.

CMS must analyze the Feedback Certificate and determine if the reason for the ineligibility is one that can be resolved in a manner that complies with FHA underwriting requirements. If CMS can correct the reason for ineligibility, CMS may rescore the Mortgage in the AUS.

When the reason for ineligibility cannot be corrected in the AUS, CMS may underwrite the Mortgage using the following requirements for an Accept Mortgage, but must resolve the reason for ineligibility in accordance with FHA requirements and must provide an explanation of the resolution in the remarks section of form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

(C) Refer

The underwriter must manually underwrite any mortgage application for which the Feedback Certificate shows a Refer recommendation or any result other than those described above.

v. Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)

CMS must downgrade and manually underwrite any Mortgage that received an Accept recommendation if:

- the mortgage file has any findings by TOTAL that cannot be met;
- 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 date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two (2) years from the date of case number assignment;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- the case number assignment date is within three (3) years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three (3) years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three (3) 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
- the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts/Collections/Public Records (Excludes medical, includes late payments in last 24 months, charge-offs, collections);
- business income shows a greater than 20 percent (20%) decline over the analysis period.

vi. Applicability of Automated Underwriting System Rules (TOTAL)

If a determination is made that the Mortgage must be downgraded to manual underwriting, CMS must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage.

vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring

CMS must re-score a Mortgage when any data element of the Mortgage change and/or new Borrower information becomes available.

CMS is not required to re-score a Mortgage if the following data elements change from the last scoring event within the described tolerance levels:

When assessing...	Rescore is not required if:
Cash Reserves	Cash Reserves verified are not less than 10% below the previously scored amount
Income	Income verified is not less than 5% below the previously scored amount
Tax and Insurance Escrow	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income Ratio (PTI)

b. Credit Requirements (TOTAL)

i. General Credit Review Requirements (TOTAL)

CMS must obtain a credit report for each Borrower who will be obligated on the mortgage Note. CMS may obtain a joint report for individuals with joint accounts.

CMS must obtain a credit report for a non-borrowing spouse or registered domestic partner who resides in a community property state, or if the subject Property is located in a community property state.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



For a non-borrowing spouse with a Social Security Number (SSN), provide:

- A credit report containing the spouse's SSN, full name, date of birth, and previous addresses for the last two (2) years, and
- Evidence the non-borrowing spouse's SSN is a match with the Social Security Administration (SSA) using the SSA-89 validation or the credit report provided the credit report indicates a match with the SSA.

For a non-borrowing spouse without a Social Security Number (SSN), provide:

- A statement signed by the non-borrowing spouse that the non-borrowing spouse does not have an SSN, and
- A credit report containing the non-borrowing spouse's full name, date of birth, and previous addresses for the last two (2) years, with the SSN field left blank. The SSN field must not be populated with an Individual Taxpayer Identification Number (ITIN), zeros, or other data that is not a Social Security Number.

ii. Credit Reports (TOTAL)

CMS must use a traditional credit report. If a traditional credit report is not available or the traditional credit report is insufficient, the Feedback Certificate will show a Refer recommendation, and CMS must manually underwrite the Mortgage.

CMS must obtain a Tri-Merged Credit Report (TRMCR) from an independent consumer reporting agency.

(A) Requirements for the Credit Report (TOTAL)

Credit reports must contain all information from all three credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. CMS must retain copies of all credit reports.

The credit report must include:

- the name of CMS ordering the report;
- the name, address, and telephone number of the consumer-reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



The credit report must also include:

- all inquiries made within the last 90 Days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven (7) years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
 - bankruptcies
 - Judgments
 - lawsuits
 - foreclosures
 - tax liens
- for each Borrower debt listed:
 - the date the account was opened
 - high credit amount
 - required payment amount
 - unpaid balance
 - payment history

(B) New Credit Report (TOTAL)

CMS must obtain a **new credit report** and **rescore the Mortgage through TOTAL** if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report. These inconsistencies may include, but are not limited to the following:

- invalidated disputes
- unreported late payments, or other derogatory items
- any other new information not contained in the original credit report that may be conflicting

iii. Evaluating Credit History (TOTAL)

CMS must analyze the Borrower's credit history in accordance with the [Accept Risk Classifications Requiring a Downgrade to Manual Underwriting](#) section.

If a determination is made that the Mortgage must be downgraded to manual underwriting, CMS must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage.

(A) Collection Accounts, Charge Off Accounts, Accounts with Late Payments in the Previous 24 Months, and Judgments (TOTAL)

CMS is not required to obtain an explanation of collection accounts, Charge Off Accounts, accounts with late payments, Judgments or other derogatory information.

(B) Disputed Derogatory Credit Accounts (TOTAL)

(1) Definition

Disputed Derogatory Credit Account refers to disputed accounts with late payments in the last 24 months, disputed Charge Off Accounts, and disputed collection accounts.

Exclusions from cumulative balance include:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, CMS must include a copy of the police report or other documentation from the creditor to support the status of the accounts.

(2) Standard

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgage must be downgraded to a Refer and manually underwritten.

Disputed Derogatory Credit Accounts of a non-borrowing spouse or registered domestic partner in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

(C) Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (TOTAL)

(1) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance
- disputed accounts with late payments aged 24 months or greater
- disputed accounts that are current and paid as agreed

(2) Required Documentation and Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, CMS is not required to downgrade the application to a Refer. However, CMS must analyze the effect of the disputed accounts on the Borrower's ability to repay the Mortgage. If the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments. Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.

(D) Judgments (TOTAL)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse or registered domestic partner in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

CMS must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

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.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments prior to closing, and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

CMS must include the payment amount in the agreement in the Borrower's monthly liabilities and debt.

CMS must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(3) Required Documentation

CMS must provide the following 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, and a subordination agreement for any liens existing on title.

(E) Inaccuracy in Debt Considered (TOTAL)

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, CMS must:

- verify the actual monthly payment amount;
- re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases to determine that the additional debt was not/will not be used for the Borrower's Minimum Required Investment (MRI).

(F) Bankruptcy (TOTAL)

(1) Standard

CMS must document the passage of two (2) years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two (2) years from the date of case number assignment, the Mortgage must be downgraded to a Refer and manually underwritten.

(2) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, CMS must obtain the bankruptcy and discharge documents.

(G) Pre-Foreclosure Sales (Short Sales) (TOTAL)

(1) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) Standard

CMS must document the passage of three (3) years since the date of the Short Sale. If the Short Sale occurred within three (3) years of the case number assignment date, the Mortgage must be downgraded to a Refer and manually underwritten.

This three-year period begins on the date of transfer of title by Short Sale.

(3) Required Documentation

If the credit report does not verify the date of the transfer of title by Short Sale, CMS must obtain the Short Sale documents.

(H) Foreclosure (TOTAL)

(1) Standard

CMS must manually downgrade to a Refer if the Borrower had a foreclosure in which title transferred from the Borrower within three (3) years of case number assignment.

(2) Required Documentation

If the credit report does not verify the date of the transfer of title through the foreclosure, CMS must obtain the foreclosure documents.

(I) Deed-in-Lieu of Foreclosure (TOTAL)

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

CMS must manually downgrade to a Refer if the Borrower had a DIL of foreclosure in which title transferred from the Borrower within three (3) years of case number assignment.

(3) Required Documentation

If the credit report does not verify the date of the transfer of title by DIL of foreclosure, CMS must obtain a copy of the DIL of foreclosure.

(J) Credit Counseling/Payment Plan (TOTAL)

Participating in a consumer credit counseling program does not require a downgrade to a manual underwriting.

No explanation or other documentation is needed.

(K) Housing Obligations/Mortgage Payment History (TOTAL)

(1) Definition

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 Plan is terminated at or prior to closing.

(2) Standard

(a) 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 12 months prior to case number assignment 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;
- one payment greater than 90 Days late; or
- borrower has made less than three consecutive payments since completion of a mortgage forbearance plan.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



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 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.

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.

(a) Cash-Out Refinance Transactions

A borrower is not eligible for a cash-out refinance if any mortgage trade line, including mortgage line-of-credit payments, reflects:

- a current delinquency;
- any delinquency within 12 months of the case number assignment date or within 12 months of the new closing date; or
- the Borrower has made less than 12 consecutive monthly payments since completion of a mortgage forbearance plan.

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.

Where a Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note, the Mortgage is not required to be downgraded to a Refer provided the Forbearance Plan is terminated at or prior to closing.

(3) Required Documentation

Where a mortgage reflects payments under a Modification or Forbearance Plan within the 12 months prior to case number assignment, CMS must obtain:

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

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

iv. Evaluating Liabilities and Debts (TOTAL)

CMS must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. CMS must also determine that any recent debts were not incurred to obtain any part of the Borrower's required funds to close on the Property being purchased.

Material Inquiries refer to inquiries which may potentially result in obligations incurred by the Borrower for other Mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

(A) General Liabilities and Debts (TOTAL)

CMS must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *Uniform Residential Loan Application (URLA)*, and required documentation.

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 (5%) of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless CMS can document that the primary account holder has made all required payments on the account for the previous 12 months.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

CMS must document that the funds used to pay off debts prior to closing came from an [acceptable source](#), and the Borrower did not incur new debts that were not included in the DTI ratio.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

(B) Undisclosed Debt Other Than a Mortgage (TOTAL)

When a debt or obligation (other than a Mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, CMS must:

- verify the actual monthly payment amount;
- re-submit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and
- determine that any funds borrowed were not/will not be used for the Borrower's MRI.

(C) 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, CMS must obtain a verification of Mortgage directly from the Servicer.

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 within 12 months of the new closing 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.

(D) Alimony, Child Support, and Maintenance (TOTAL)

(1) Definition

Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.

(2) Standard

For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in CMS's calculation of the Borrower's gross income, CMS must include the monthly obligation in the calculation of the Borrower's debt.

Child Support and Maintenance are to be treated as a recurring liability and CMS must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

CMS must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

CMS must also 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.

(4) Calculation of Monthly Obligation

CMS must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(E) Non-Borrowing Spouse Debt in Community Property States (TOTAL)

(1) Definition

Non-Borrowing Spouse Debt refers to debts owed by a spouse or registered domestic partner that are not owed by, or in the name of the Borrower.

(2) Standard

If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios.

The non-borrowing spouse's credit history is **not** considered a reason to deny a mortgage application.

(3) Required Documentation

CMS must verify and document the debt of the non-borrowing spouse.

CMS must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

CMS 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 credit report for the non-borrowing spouse may be traditional or nontraditional.

(F) Exclusion of Debts for Legally Separated Couples (TOTAL)

(1) Definition

Legal separation is a legal process whereby a married couple may formalize a separation while remaining legally married. Legal separation is granted in the form of a court order.

(2) Standard

CMS permits the exclusion of debts for legally separated couples in accordance with state law. Debts in the name of the non-borrowing spouse are not required to be included in the Borrower's qualifying ratios. The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application.

CMS must notate the file referencing the exclusion of any debt from consideration.

(3) Required Documentation

CMS must obtain a copy of the legal separation agreement or court order as proof of legal separation.

CMS must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be excluded.

(G) Deferred Obligations (TOTAL)

(1) Definition

Deferred Obligations (excluding [Student Loans](#) – applies to loans with Case Numbers assigned on and after June 30, 2016) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard

CMS must include deferred obligations in the Borrower's liabilities.

(3) Required Documentation

CMS 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. CMS must obtain evidence of the actual monthly payment obligation, if available.

(4) Calculation of Monthly Obligation

CMS 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, CMS must utilize the terms of the debt or 5 percent (5%) of the outstanding balance to establish the monthly payment.

(H) Student Loans (TOTAL)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

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

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the CMS 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.

CMS 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.

(4) Calculation of Monthly Obligation

For outstanding Student Loans, regardless of payment status, the CMS 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.

(I) Installment Loans (TOTAL)

(1) Definition

Installment Loans (excluding Student Loans – applies to loans with Case Numbers assigned on and after June 30, 2016) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

CMS must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's liabilities.

If the credit report does not include a monthly payment for the loan, CMS must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, CMS must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement, or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the [Deferred Obligations](#) section.

(J) Revolving Charge Accounts (TOTAL)

(1) Definition

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(2) Standard

CMS must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, CMS must use the payment shown on the current account statement or 5 percent (5%) of the outstanding balance.

(3) Required Documentation

CMS must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, CMS must obtain a copy of the most recent charge account statement or use 5 percent (5%) of the outstanding balance to document the monthly payment.

(K) 30-Day Accounts (TOTAL)

(1) Definition

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

(2) Standard

CMS 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, CMS must utilize 5 percent (5%) of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

CMS must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. CMS 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.

(L) Contingent Liabilities (TOTAL)

(1) Definition

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.

(2) Standard

CMS must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless CMS 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. **When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.**

(3) Calculation of Monthly Obligation

CMS must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(4) Required Documentation

(a) Mortgage Assumptions

CMS must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, CMS 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.

(c) Court Ordered Divorce Decree or Other Court Order

CMS must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(M) Collection Accounts (TOTAL)

(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of \$2,000 or greater, CMS must:

- verify that the debt is paid in full at the time of or prior to settlement using acceptable [sources of funds](#);
- verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower's DTI; or
- if a payment arrangement is not available, calculate the monthly payment using 5 percent (5%) of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI.

Collection accounts of a non-borrowing spouse or registered domestic partner 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.

(3) Required Documentation

CMS must provide the following 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 CMS uses 5 percent (5%) of the outstanding balance, no documentation is required.

(N) Charge Off Accounts (TOTAL)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

(O) Private Savings Clubs (TOTAL)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt.

CMS must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(3) Required Documentation

CMS must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(P) Business Debt in Borrower's Name (TOTAL)

(1) Definition

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.

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless CMS can document that the debt has been paid by the Borrower's business for at least 12 months, on time payments without delinquency are required, 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.

This guidance does not apply to Sole Proprietors/Schedule C self-employed borrowers, borrower debts paid by Sole Proprietors/Schedule C businesses may not be excluded.

(3) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, CMS 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.

(Q) Obligations Not Considered Debt (TOTAL)

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments are required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

c. Income Requirements (TOTAL)

Definition of Effective Income (TOTAL)

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.

Effective Income must be reasonably likely to continue through at least the first three (3) years of the Mortgage, and meet the specific requirements described below.

Income trends must be analyzed, and be considered stable. Declining trends must be carefully analyzed, and must document how the income was determined to be stable. Declining income trends require the use of the most conservative approach when calculating effective income.

i. General Income Requirements (TOTAL)

CMS must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

CMS may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns. Foreign earned income is acceptable for qualifying purposes so long as it is taxed using U.S. tax returns. The Underwriter must consider the impact of any foreign income exclusion on occupancy requirements.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

ii. Employment Related Income (TOTAL)

(A) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

Third Party Verification (TPV) refers to a process through which a Borrower's employment information is verified directly by CMS with a borrower's employer through the services of a third party vendor.

(B) Standard

CMS may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income.

(C) Required Documentation

For all Employment related Income, CMS must verify the Borrower's most recent two (2) years of employment and income, and document current employment using either the Traditional or Alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

CMS must obtain one of the following to verify current employment and income:

- the most recent pay stub and a written Verification of Employment (VOE) covering two (2) years; or
- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized CMS to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements.

Re-verification of employment must be completed within 10 Calendar Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

When pay stubs are handwritten or do not contain YTD earnings, a payroll ledger documenting YTD earnings signed by the employer is required.

(2) Alternative Current Employment Documentation

If using alternative documentation, CMS 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 (2) 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.

Re-verification of employment must be completed within 10 Calendar Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

(3) Verbal Verification of Employment (VVOE)

A VVOE is required for current employment, within 10 calendar days of the Note date.

The Underwriter must verify the two (2) year employment history is correct on the URLA. The Underwriter will perform the verification using the following tools: paystubs, W-2's, 1099's, tax returns, gap letters, awards letter, etc.

The Underwriter will condition the file accordingly in order to provide the correct employment dates for the two (2) years on the URLA.

The final URLA should reflect the accurate dates of employment for each employer.

Letters of Explanation for employment gaps (based on program requirements) should be included in the credit package upon clear to close (CTC). Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

Note: A VVOE is not required for CMS Portfolio non-credit qualifying FHA Streamline loan transactions.

Refer to the [Credit Policy](#) for additional information.

(4) Past Employment Documentation

Direct verification of the Borrower's employment and income history for the previous two (2) 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-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two (2) tax years.

If the applicant has not been employed with the same employer for the previous two (2) years and/or not all conditions immediately above can be met, then CMS must obtain one or a combination of the following for the most recent two (2) years to verify the applicant's employment history:

- W-2(s)
- written VOE(s)
- direct electronic verification by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized CMS to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements.
- evidence supporting enrollment in school or the military during the most recent two (2) full years – **Note:** High School transcripts are not permitted to complete the two year work history

iii. Primary Employment (TOTAL)

(A) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(B) Standard

CMS may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, CMS must use the current salary to calculate Effective Income.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, CMS must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, CMS must average the income over the previous two (2) years. If CMS can document an increase in pay rate CMS may use the most recent 12-month average of hours at the current pay rate.

iv. Part-Time Employment (TOTAL)

(A) Definition

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.

(B) Standard

CMS may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two (2) years and the current position is reasonably likely to continue.

(C) Calculation of Effective Income

CMS must average the income over the previous two (2) years. If CMS can document an increase in pay rate CMS may use a 12-month average of hours at the current pay rate.

v. Overtime, Bonus or Tip Income (TOTAL)

(A) Definition

Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(B) Standard

CMS may use Overtime, Bonus or Tip Income as Effective Income if the Borrower has received this income for the past two (2) years and it is reasonably likely to continue.

(C) Calculation of Effective Income

For employees with Overtime, Bonus or Tip Income, CMS must calculate the Effective Income by using the lesser of:

- the average Overtime, Bonus or Tip Income earned over the previous two years; or
- the average Overtime, Bonus or Tip Income earned over the previous year.

vi. Seasonal Employment (TOTAL)

(A) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(B) Standard

CMS may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two (2) years and is reasonably likely to be rehired for the next season. CMS may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

(C) Required Documentation

For seasonal employees with unemployment income, CMS must document the unemployment income for two (2) full years and there must be reasonable assurance that this income will continue.

(D) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, CMS must average the income earned over the previous two (2) full years to calculate Effective Income.

vii. Employer Housing Subsidy (TOTAL)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

CMS may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

CMS must verify and document the existence and the amount of the housing subsidy.

(D) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, CMS may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

viii. Employed by Family-Owned Business (TOTAL)

(A) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

(B) Standard

CMS may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(C) Required Documentation

CMS must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, CMS must obtain copies of signed personal tax returns or tax transcripts.

(D) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, CMS must use the current salary to calculate Effective Income. Management approval is required when the Borrower has not been employed by the family owned business for at least 12 months, or when the Borrower's current salary is not supported by the last 12 months of earnings.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, CMS must consider the Borrower's current hourly rate to calculate Effective Income, as long as it is supported by the prior year's earnings.

For employees who are paid hourly and whose hours vary, CMS must average the income over the previous two (2) years.

ix. Commission Income (TOTAL)

(A) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(B) Standard

CMS may use Commission Income as Effective Income if the Borrower earned the income for at least one (1) year in the same or similar line of work and it is reasonably likely to continue.

(C) Required Documentation

For all Commission Income, CMS must use traditional or alternative employment documentation.

(D) Calculation of Effective Income

CMS 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.

x. Self-Employment Income (TOTAL)

(A) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent (25%) or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

CMS may consider Self-Employment Income if the Borrower has been self-employed for at least two (2) years.

If the Borrower has been self-employed between one (1) and two (2) years, CMS may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two (2) years. Previous education is not acceptable for documenting prior history.

(2) Stability of Self-Employment Income

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 (20%) decline in Effective Income over the analysis period, CMS must downgrade and manually underwrite. Refer to [Self-Employment Income \(Manual\)](#) for required analysis.

Any decline in Effective Income, regardless of the percentage must be properly addressed by the D.E. Underwriter, and stability must be documented.

(C) Required Documentation

(1) Individual and Business Tax Returns

CMS must obtain complete individual federal income tax returns for the most recent two (2) years, including all schedules.

CMS must obtain the Borrower’s business tax returns for the most recent two years unless the following criteria are met:

- individual federal income tax returns show increasing Self-Employment Income over the past two years;
- funds to close are not coming from business accounts; and
- the Mortgage to be insured is not a cash-out refinance.

In lieu of signed individual or business tax returns from the Borrower, CMS may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

CMS must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

If income used to qualify the Borrower exceeds the two year average of tax returns, an **audited** P&L or signed quarterly tax return must be obtained from the IRS.

(D) Calculation of Effective Income

CMS must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms.

CMS must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two (2) years; or
- the average gross Self-Employment Income earned over the previous one (1) year.

xi. Additional Required Analysis of Stability of Employment Income (TOTAL)

(A) 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, CMS must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). CMS must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), CMS 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.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, CMS 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 federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, CMS may use the Borrower's pre-leave income as Effective Income.

For Borrowers returning to work after the first Mortgage Payment due date, CMS 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 as Effective 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. Transactions involving borrowers returning to work after the first Mortgage Payment due date require management review, and approval.

Required Documentation

CMS 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.

xii. Other Sources of Effective Income (TOTAL)

(A) Disability Benefits (TOTAL)

(1) Definition

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

(2) Required Documentation

CMS must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. CMS must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three (3) years from the date of mortgage application, that income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, CMS may consider the income effective and reasonably likely to continue. CMS may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

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

(a) Social Security Disability

For Social Security Disability income, including Supplemental Security Income (SSI), CMS 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*.

(b) VA Disability

For VA disability benefits, CMS must obtain from the Borrower a copy of the veteran’s last Benefits Letter, showing the amount of the assistance and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

For private disability benefits, CMS 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.

(3) Calculation of Effective Income

CMS must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (TOTAL)

(1) Definition

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.

(2) Required Documentation

CMS 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, CMS 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.

CMS must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

CMS must provide evidence that the claimed income will continue for at least three (3) years. CMS may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) 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, CMS 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, CMS 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, CMS must use the average of the income received over the previous two (2) years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two (2) years, CMS must use the average over the time of receipt.

(C) Military Income (TOTAL)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

CMS may not use military education benefits as Effective Income.

(2) Required Documentation

CMS must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). CMS 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, and provides a statement from the Commanding Officer confirming the borrower's eligibility for continued service.

(3) Calculation of Effective Income

CMS must use the current amount of Military Income received to calculate Effective Income.

(D) Other Public Assistance (TOTAL)

(1) Definition

Public Assistance (including foster care income on a case by case basis) refers to income received from government assistance programs.

(2) Required Documentation

CMS must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three (3) 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, CMS may consider the income effective and reasonably likely to continue.

(3) Calculation of Effective Income

CMS must use the current rate of Public Assistance received to calculate Effective Income.

(E) Automobile Allowances (TOTAL)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

CMS must verify and document the Automobile Allowance received from the employer for the previous two (2) years.

(3) Calculation of Effective Income

CMS must use the full amount of the Automobile Allowance to calculate Effective Income.

(F) Retirement Income (TOTAL)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (TOTAL)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

CMS must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, CMS must obtain any 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*.

In addition to verification of income, CMS must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three (3) years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, CMS must consider the income effective and reasonably likely to continue. CMS may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

CMS must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (TOTAL)

(a) Definition

Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

CMS must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three (3) years.

CMS must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

CMS must use the current amount of Pension income received to calculate Effective Income. **Income from a pension may not be "grossed up."**

(3) Individual Retirement Account and 401(k) (TOTAL)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

CMS must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three (3) years.

CMS must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, CMS must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, CMS must use the average of the IRA/401(k) Income received over the previous two (2) years to calculate Effective Income. If IRA/401(k) Income has been received for less than two (2) years, CMS must use the average over the time of receipt.

The borrower must have an established and continual distribution plan. At-will withdrawals from a retirement account may not be considered Effective Income.

(G) Rental Income (TOTAL)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(2) Rental Income Received from the Subject Property (TOTAL)

(a) Standard

CMS 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.

(b) Required Documentation

Documentation varies depending upon the length of time the Borrower has owned the Property.

(i) 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

CMS 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

CMS 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.

(ii) History of Rental Income

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, CMS must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two (2) years.

For Properties with less than two (2) years of Rental Income history, CMS must document the date of acquisition by providing the deed, Settlement Statement or Closing Disclosure, as applicable or similar legal document.

(c) Calculation of Effective Income

CMS must add the net subject property Rental Income to the Borrower's gross income. CMS may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

(i) 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, CMS must use the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent (75%) of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Rental Income

CMS 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 (2) years, CMS must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (TOTAL)

(a) Standard

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. CMS 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.

(b) Required Documentation

(i) 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, CMS must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent (25%) equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

CMS 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

CMS 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.

(ii) History of Rental Income

CMS must obtain the Borrower's last two (2) years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) 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, CMS 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 (75%) of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

Where the Borrower has no history of receiving Rental Income, CMS requires an appraisal with 25% equity.

(ii) History of Net Rental Income

CMS 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 (2) years, CMS must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two (2) years of Rental Income history, CMS must document the date of acquisition by providing the deed, Settlement Statement or Closing Disclosure, as applicable 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.

(4) Boarders of the Subject Property (TOTAL)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

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.

(c) Required Documentation

CMS must obtain two (2) years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, CMS must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

CMS must calculate the Effective Income by using the lesser of the two year average or the current lease.

(H) Investment Income (TOTAL)

(1) Definition

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.

(2) Required Documentation

CMS must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two (2) years and the most recent account statement.

(3) Calculation of Effective Income

CMS must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two (2) years; or
- the average Investment Income earned over the previous one (1) year.

CMS 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.

(I) Capital Gains and Losses (TOTAL)

(1) Definition

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.

(2) Standard

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.

(3) Required Documentation

Three (3) 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.

(J) Expected Income (TOTAL)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

CMS may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

CMS must verify and document the existence and amount of Expected Income with the employer in writing and that it is **guaranteed** to begin within 60 Days of mortgage closing. Any new job should have a non-revocable binding agreement in order to determine that the expected employment is guaranteed.

For expected Retirement Income, CMS must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. CMS must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(K) Trust Accounts (TOTAL)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

CMS must verify and document the existence of the Trust Agreement or other trustee statement. CMS must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

CMS must verify that regular payments will continue for at least the first three (3) years of the mortgage term.

(3) Calculation of Effective Income

CMS must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(L) Annuities or Similar (TOTAL)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

CMS must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three (3) years of the Mortgage. CMS must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

The borrower must have an established and continual distribution plan. At-will withdrawals from an annuity may not be considered Effective Income.

(3) Calculation of Effective Income

CMS must use the current rate of the annuity to calculate Effective Income.

CMS 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 Annuity Income.

(M) Notes Receivable Income (TOTAL)

(1) Definition

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.

(2) Required Documentation

CMS must verify and document the existence of the Note. CMS 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 (3) years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, CMS must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, CMS must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(N) Non-Taxable Income (Grossing Up) (TOTAL)

(1) Definition

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

CMS 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.

(3) 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 (15%) 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, CMS may Gross Up the Non-Taxable Income by 15 percent (15%).

CMS may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

(O) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

xiii. Unacceptable Sources of Income (TOTAL)

Sources of Unacceptable Income (TOTAL)

The following income sources are not acceptable for purposes of qualifying the borrower:

- Any unverified source of income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options
- Trailing spouse income
- Welfare benefits
- Unverifiable income
- VA education benefits
- Income derived from State approved marijuana dispensary, even if W2 wages

d. Asset Requirements (TOTAL)

i. General Asset Requirements (TOTAL)

CMS may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

(A) Earnest Money Deposit (TOTAL)

CMS must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent (1%) 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
- direct electronic verification by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized CMS to verify assets;
 - the date of the completed verification conforms with FHA requirements; 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.

Cash on hand is not permitted as a source of funds. If the source of the earnest money deposit was a gift, CMS must verify that the gift is in compliance with [Gifts \(Personal and Equity\) \(TOTAL\)](#).

(B) Cash to Close (TOTAL)

CMS must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

CMS must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

CMS or sponsored TPO may charge a reasonable origination fee.

CMS or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Mortgage.

Charges may not exceed the actual costs. CMS must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19.

(b) Discount Points

Discount Points refer to a charge from CMS for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.

(d) Non-Realty or Personal Property

Non-Realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or Third Party Originator (TPO) at the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

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.

(i) Interested Party Contributions on the Settlement Statement or Closing Disclosure, as applicable

CMS may apply Interested Party credits to the closing costs and prepaid items including any items Paid Outside Closing (POC).

The refund of the Borrower's POCs may be used toward the Borrower's MRI if CMS documents that the POCs were paid with the Borrower's own funds. Must be documented with a cancelled check or debit card transaction that came from the borrower's own funds and not a credit card or seller contribution. Bank statement must be provided to evidence clearance.

CMS must identify the total Interested Party credits on the front page of the Settlement Statement or Closing Disclosure, as applicable or similar legal document or in an addendum. CMS must identify each item paid by Interested Party Contributions.

(j) 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 Borrower's Minimum Required Investment (MRI), if CMS 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, without consideration of the real estate tax credit.

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.

(C) Reserves (TOTAL)

CMS must verify and document all assets submitted to the AUS.

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

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.

Required Reserves for Three- to Four-Unit Properties

CMS must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (TOTAL)

(A) Definition

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9)(A) of the National Housing Act, which represents at least 3.5 percent (3.5%) of the Adjusted Value of the Property.

Third Party Verification (TPV) refers to a process through which a Borrower's asset information is verified directly by CMS with a borrower's financial institution through the services of a third party vendor.

(B) Standard

CMS must ensure that the Borrower's MRI is from a permissible source and meets the following requirements.

CMS must ensure that the source of funds for the Borrower's MRI to be provided fully complies with the Source Requirements for the Borrower's Minimum Required Investment.

CMS must ensure that no portion of the Borrower's MRI is provided by:

- (1) the seller of the Property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.
- (4) any down-payment assistance program including, but not limited to; governmental entities, charitable organizations, Federal Home Loan Bank Homeownership Set-Aside Grant Program. (CMS does not permit down-payment assistance programs)

While additional funds to close may be provided by one of these sources if permitted under the relevant [Sources of Funds \(TOTAL\)](#) and [Sources of Funds \(Manual\)](#) requirements, none of the Borrower's MRI may come from these sources.

(1) Special Requirements for Family Members

A Family Member may provide the Borrower's MRI in accordance with Section 203(b)(9)(B) of the National Housing Act.

(2) Special Requirements for Government Entities

In accordance with the Prohibited Sources of Minimum Cash Investment Under the National Housing Act – Interpretive Rule, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities, when acting in their governmental capacity, from providing the Borrower's MRI where the Mortgage is being originated as part of a Governmental Entity homeownership program.

(C) Required Documentation

Where any portion of the Borrower's MRI is provided by a person or entity other than the Borrower, CMS must also obtain documentation to support the permissible nature of the source of those funds.

CMS must document that all portions of the Borrower's MRI come from an acceptable [Sources of Funds \(TOTAL\)](#) and [Sources of Funds \(Manual\)](#) in accordance with both the source requirements for the specific type of funds used, and the specific documentation requirements under the additional Source Requirements for the Borrower's MRI set forth in this section.

Governmental Entity Funds

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

Mortgagees must document that the Borrower's MRI was provided by the Governmental Entity, as either a gift or through Secondary Financing, in a manner consistent with the National Housing Act and the additional provisions of this section. Mortgagees must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI in its governmental capacity. It is not sufficient to document that the Governmental Entity has agreed to reimburse the Mortgagee for the use of funds legally belonging to Mortgagee to fund the Borrower's MRI.

Mortgagees must obtain:

- for federal, state or local government agencies, a copy of documentation from a jurisdiction in which the Property is located, which granted governmental authority to the entity;
- a legal opinion signed and dated within two years of closing of the transaction by attorneys for the Governmental Entity stating:
 - the attorney has reviewed the Governmental Entity's down-payment assistance program; and
 - either
 - the Governmental Entity is considered within the jurisdiction in which the Property is located to be either a federal, state (as defined in Section 201(d) of the National Housing Act (12 U.S.C. §1707(d)), or local government or agency or instrumentality thereof, as provided in Section 528 of the National Housing Act (12 U.S.C §1735f-6), and 24 CFR 203.32(b) and further clarified in the SF Handbook.;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- the Governmental Entity is a federally recognized Indian Tribe operating on tribal land in which the Property is located or to enrolled members of the tribe; or
- the Governmental Entity is a Federal Home Loan Bank;
- evidence that the down-payment assistance is being provided by the Governmental Entity by collecting either:
 - a letter from the Governmental Entity, signed by an authorized government official, establishing that the funds provided towards the Borrower's MRI were provided in the Governmental Entity's governmental capacity in the jurisdiction in which the Property is located consistent with its down-payment assistance program and that the provision of such funds is not contingent upon any future transfer of the insured Mortgage to a specific entity, and a canceled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided towards the Borrower's MRI from the Governmental Entity's account; or
 - a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided towards the Borrower's MRI were funds legally belonging to the Governmental Entity and were provided in the Governmental Entity's governmental capacity in the jurisdiction in which the Property is located or for the federally recognized Indian Tribe's enrolled member, consistent with its down-payment assistance program, at or before closing. The letter must make clear that the provision of the down-payment assistance is not contingent upon any future transfer of the insured Where such a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the MRI legally belonged to the Governmental Entity at or before closing, by stating:
 - the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds towards the Borrower's MRI;
 - the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds towards the Borrower's MRI; or
 - the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds towards the Borrower's MRI.

Mortgagees must either document the actual transfer of funds in satisfaction of the obligation or liability by the Governmental Entity prior to the submission of the Mortgage for insurance or obtain documentation of the satisfaction of the obligation or liability by the Governmental Entity after submission and maintain such documentation in the Mortgagee's files.

The failure of the Mortgagee to demonstrate the down-payment assistance provider has transferred the funds, the failure of the Governmental Entity to satisfy the obligation or liability, or any demand for reimbursement or indemnification for such funds by the Governmental Entity may call into question whether FHA requirements have been met and result in a determination that the funds were, in fact, provided by a prohibited source.

iii. Sources of Funds (TOTAL)

CMS must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (TOTAL)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

CMS must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent (1%) of the Adjusted Value or is excessive based on the Borrower's history of accumulating savings, CMS must verify and obtain documentation of the deposits. CMS must also verify that no debts were incurred to obtain part, or all, of the MRI.

(3) Required Documentation

(a) Traditional Documentation

Direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:

- the Borrower has authorized CMS 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.

(b) Alternative Documentation

A statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, CMS must obtain statement(s) for the most recent two months.

(B) Cash on Hand (TOTAL)

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

Cash on hand is not an acceptable source of funds.

(C) Retirement Accounts (TOTAL)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

CMS may include up to 60 percent (60%) 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.

(3) Required Documentation

CMS 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.

(D) Stocks and Bonds (TOTAL)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

CMS 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, CMS 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 CMS verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

CMS 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 CMS must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs (TOTAL)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

CMS may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

CMS must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. CMS must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

CMS must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(F) Gifts (Personal and Equity) (TOTAL)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union; or
- a charitable organization.

Any gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(b) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

(3) Required Documentation

CMS must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

A Family Member's relationship is documented by obtaining:

- A gift letter signed and dated by the borrower(s) and gift donor to state the relationship, and
- An independent verbal gift letter verification

When discrepancies exist, such as inconsistencies between the gift letter and verbal verification, or appearance of alterations or multiple gift letters from the originator, then additional documentation must be provided to support the donor's relationship.

Documenting the Transfer of Gifts

CMS 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, CMS must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

For gifts of land, obtain: proof of ownership by the donor, and evidence of the transfer of title to the Borrower.

CMS and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

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

If the gift donor's beginning account balance is enough to cover the gift transfer, that is considered an acceptable source. If additional deposits made are needed to provide the gift funds, the source of funds must be documented.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a gift on Property being sold to other Family Members.

(b) Required Documentation

CMS must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

(G) Interested Party Contributions (TOTAL)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

(2) Standard

Interested Parties may contribute up to 6 percent (6%) of the sales price toward the Borrower's origination fees, other closing costs and discount points. The 6 percent (6%) limit also includes:

- Interested Party payment for permanent and temporary interest rate buy-downs and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent (6%) are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent limit, provided the Mortgagee or TPO is not the seller, real estate agent, builder, or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

CMS must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document.

When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (TOTAL)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent (6%) of the purchase price;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (TOTAL)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (TOTAL)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (TOTAL)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent prorated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Down-payment Assistance Programs (TOTAL)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

Mortgagees must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

FHA also does not allow nonprofit entities to provide gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a Borrower's down-payment, and the organization providing the gift loses or gives up its federal tax-exempt status, FHA will recognize the gift as an acceptable source of the down-payment provided that:

- the gift is made to the Borrower;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

(2) Mortgagee Responsibility for Ensuring that Down-payment Assistance Provider is a Charitable Organization

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

Mortgagees are responsible for ensuring that an Entity providing down-payment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (TOTAL)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt.

- Notes and Deeds are not required for existing secondary financing. The subordination agreement is always required. This applies for all FHA Refinances.
- Notes and Deeds are required for new secondary financing, no exceptions.

(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL)

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the Entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 Entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's MRI;
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- the functions performed are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as Carrington Mortgage Services, LLC.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

CMS must enter information on HUD-approved Nonprofits into FHA Connection (FHAC), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the loan instruments; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
 - the FHA case number for the first Mortgage;
 - the complete property address;
 - the name, address and Tax ID for the nonprofit;
 - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
 - the amount and purpose for the secondary financing provided to the Borrower; and
 - a statement indicating whether the secondary financing:
 - will close in the name of the Governmental Entity; or
 - will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:

- the functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as Carrington Mortgage Services, LLC.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (TOTAL)

(a) Definition

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 Entities must follow the guidance in [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

CMS must enter information into FHAC on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(3) Family Members (TOTAL)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent (100%) of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;
- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an Entity with an Identity of Interest in the sale of the Property, such as the:
 - seller;
 - builder;
 - loan originator; or
 - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another Entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the loan instruments.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, CMS must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including CMS.

(4) Private Individuals and Other Organizations (TOTAL)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or Entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower.
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the [Nationwide Mortgage Limits](#);
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving CMS 30 Days advance notice.

CMS does not permit the use of secondary financing from Private Individuals and Other Organizations to be used for the borrower's MRI.

(c) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

(K) Loans (TOTAL)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (TOTAL)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. CMS must reduce the amount of the corresponding asset by the amount of the collateralized loan.

Unsecured loans such as cash advances on credit cards and borrowing against Personal Property are not acceptable sources for the Borrower's Minimum Required Investment (MRI). Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles, household goods and furniture.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(d) Required Documentation

CMS must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (TOTAL)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

CMS must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

CMS must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (TOTAL)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provides immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA insured Mortgage, and meet the requirements for [Secondary Financing provided by Governmental Entities](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

CMS must verify and document the promissory Note.

(L) Grants (TOTAL)

(1) Disaster Relief Grants (TOTAL)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provides immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

CMS must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (TOTAL)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of Down-payment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(c) Required Documentation

Mortgagees must verify and document the Borrower's receipt of the grant and terms of use.

Mortgagees must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (TOTAL)

(1) Definition

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.

(2) Standard

(a) Relocation Guaranteed Purchase

CMS may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, CMS 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.

CMS must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

CMS must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, CMS must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (TOTAL)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

(2) Standard

CMS must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain funds for closing. Only titled items to which the borrower can prove ownership are acceptable (i.e. cars, boats, etc.). Personal items such as jewelry, appliances, etc. are not acceptable.

CMS 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. Cash received for the sale of personal property is not acceptable. 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.

(O) Trade-In of Manufactured Housing (TOTAL)

(1) Definition

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

CMS must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. CMS must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (TOTAL)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

CMS must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or Closing Disclosure, as applicable or similar legal document.

CMS must also verify and document that the transaction was arm's length, and that the Borrower is entitled to the net sale proceeds.

Note: an Arm's Length Transaction refers to a transaction between unrelated parties and meets the requirements of [Market Value](#).

(Q) Sale of a Subject Property (TOTAL)

(1) Definition

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.

(2) Standard

CMS may consider Real Estate Commissions from the Sale of 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.

(3) Required Documentation

CMS 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 Sale of Subject Property being purchased.

(R) Rent Credits (TOTAL)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

CMS may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.

(3) Required Documentation

CMS must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

iv. Unacceptable Sources of Funds (TOTAL)

Sources of funds considered ineligible for asset evaluation include the following:

- Donated funds in any form, such as cash or bonds donated by the seller, builder, or selling agent
- Proceeds of a personal or unsecured loan
- Cash advances on a revolving charge account or unsecured line of credit
- A gift that must be repaid in full or in part
- A gift that was received from an unacceptable donor
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- The proceeds from an IRS Tax Code 1031 Exchange on an owner occupied transaction
- Salary advances
- Cash for which the source cannot be verified (e.g., garage sales, cash saved at home)
- Cryptocurrency (digital assets such as bitcoins)
- Funds in a Custodial or "In Trust For" Account
- The sale of personal property for cash
- Systematic Savings
- Student Loan Funds (includes employer tuition reimbursements, excess financial aid proceeds, and reimbursements from schools that were derived from borrowed funds)

e. Final Underwriting Decision (TOTAL)

CMS may approve the Mortgage as eligible for FHA insurance endorsement if:

- TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- the underwriter underwrote the appraisal according to standard FHA requirements;
- CMS reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate; and
- the Mortgage meets all FHA requirements applicable to Mortgages receiving a rating of Accept from TOTAL Mortgage Scorecard.

While TOTAL Mortgage Scorecard is available for CMS to use in their prequalification process of mortgage applicants, CMS must score the Mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessment nor will information be carried from TOTAL Mortgage Scorecard to [FHAC](#) for endorsement processing, without an FHA case number. It is imperative that CMSs make certain that they enter the FHA case number into their Loan Origination System or AUS as soon as it is known. This will ensure a more efficient endorsement process.

i. Documentation of Final Underwriting Review Decision (TOTAL)

CMS must complete the following documents to evidence their final underwriting decision.

(A) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

On form HUD-92900-LT, CMS must:

- indicate the CHUMS ID of the underwriter who reviewed the appraisal;
- complete the Risk Assessment; and
- enter the identification of “ZFHA” in the CHUMS ID.

When the Feedback Certificate indicates “Accept/Ineligible,” CMS must document the circumstances or other reasons that were evaluated in making the decision to approve the Mortgage in the Remarks section.

(B) Conditional Commitment Direct Endorsement

Statement of Appraised Value

The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.

(C) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

The underwriter must complete form HUD-92900-A as directed in the form instructions.

An authorized officer of Carrington Mortgage Services, LLC, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

ii. Conditional Approval (TOTAL)

CMS must condition the approval of the Borrower on the completion of the final *URLA* and form HUD-92900-A.

iii. HUD Employee Mortgages (TOTAL)

If the Mortgage involves a HUD employee, CMS must condition the Mortgage on its approval by HUD. CMS must submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

iv. Notification of Borrower of Approval and Term of the Approval (TOTAL)

CMS must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

5. Manual Underwriting of the Borrower

CMS must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

If a Mortgage receiving the AUS Refer or downgrade to manual processing involves a HUD employee, CMS must underwrite the transaction in accordance with the guidance in this Manual Underwriting section. CMS must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

a. Credit Requirements (Manual)

i. General Credit Requirements (Manual)

FHA's general credit policy requires CMS to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

CMS must either obtain a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

CMS must utilize the same credit report and credit scores sent to TOTAL. If an updated credit report is received, it must be scored by TOTAL regardless of existing or anticipated Scorecard decision.

CMS must obtain a credit report for each Borrower who will be obligated on the mortgage Note. CMS may obtain a joint report for individuals with joint accounts.

CMS must obtain a credit report for a non-borrowing spouse or registered domestic partner who resides in a community property state, or if the subject Property is located in a community property state. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or CMS 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 (2) years.

CMS is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

ii. Types of Credit History (Manual)

If a traditional credit report is available, CMS must use a traditional credit report. However, if a traditional credit report is not available, CMS must develop the Borrower's credit history using the requirements for [Non-Traditional and Insufficient Credit](#).

(A) Traditional Credit (Manual)

If the TRMCR or RMCR generates a credit score, CMS must utilize traditional credit history.

(1) Requirements for the Credit Report

Credit reports must obtain all information from all three credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. CMS must retain copies of all credit reports.

The credit report must include:

- the name of CMS ordering the report;
- the name, address, and telephone number of the consumer-reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

The credit report must also include:

- all inquiries made within the last 90 Days;
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven (7) years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
 - bankruptcies;
 - Judgments;
 - lawsuits;
 - foreclosures; and
 - tax liens;and
- for each Borrower debt listed:
 - the date the account was opened;
 - high credit amount;
 - required monthly payment amount;
 - unpaid balance; and
 - payment history.

(2) Updated Credit Report or Supplement to the Credit Report

CMS must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

(3) Credit Information Not Listed on Credit Report

A Mortgagee must develop credit information separately for any open debt listed on the mortgage application but not referenced in the credit report by using the procedures for [Independent Verification of Non-Traditional Credit Providers](#).

(4) Specific Requirements for Residential Mortgage Credit Report

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and
- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

(B) Non-Traditional and Insufficient Credit (Manual)

For Borrowers without a credit score, CMS must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below. A combination of a credit report and independent documentation is acceptable.

When utilizing non-traditional credit, the Underwriter is responsible to enter a "0" as the credit score in the loan origination system (LOS).

(1) Non-Traditional Mortgage Credit Report

(a) Definition

An NTMCR is designed to access the credit history of a Borrower who does not have the types of trade references that appear on a traditional credit report and used either as:

- a substitute for a TRMCR or an RMCR; or
- a supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

(b) Standard

CMS may use a NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- the existence of the credit providers;
- that the credit was actually extended to the Borrower; and
- the creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the:

- creditor's name;
- date of opening;
- high credit;
- current status of the account;
- required monthly payment;
- unpaid balance; and
- payment history in the delinquency categories (for example, 0x30 and 0x60).

(2) Independent Verification of Non-Traditional Credit Providers

CMS may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

a. To verify the existence of each credit provider, CMS must review public records from the state, county, or city or other documents providing a similar level of objective information.

b. To verify credit information, CMS must:

- use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
- obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider. Accounts must be active. Closed or expired accounts are not acceptable.

c. To verify the Borrower's rental payment history, CMS must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.

(3) Sufficiency of Credit References

To be **sufficient** to establish the Borrower's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
 - gas;
 - electricity;
 - water;
 - television service; or
 - Internet service.

If CMS cannot obtain all three credit references from the list above, CMS may use the following sources of unreported recurring debt:

- insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);
- payment to child care providers made to businesses that provide such services;
- school tuition;
- retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);
- rent-to-own (for example, furniture, appliances);
- payment of that part of medical bills not covered by insurance;
- a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that:
 - were made at least quarterly;
 - were not payroll deducted, and;
 - caused no insufficient funds (NSF) checks;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments; or

- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

If the borrower cannot provide at least three of these references, with at least one being from the first list the borrower would be classified as insufficient credit.

iii. Evaluating Credit History (Manual)

(A) General Credit (Manual)

The underwriter must examine the Borrower’s overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower’s creditworthiness.

CMS must not consider the credit history of a non-borrowing spouse.

(B) 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 Charge Accounts.

(1) Satisfactory Credit

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 prior to closing and has no more than two 30-Day late Mortgage Payments or installment payments in the previous 24 months prior to closing.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on Revolving Charge Accounts in the previous 12 months prior to closing.

Major derogatory credit on Revolving Charge 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	12 Months	24 Months
Housing and Installment	0 x 30	2 x 30
Revolving	2 x 60, 0 x 90	---

(2) 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.

CMS 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. CMS must document this analysis in the mortgage file. Any letter of explanation or documentation of delinquent accounts must be consistent with other information in the file. Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter’s content.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

(C) Housing Obligations/Mortgage Payment History (Manual)

(1) Definition

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.

(2) Standard

CMS 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 mortgage servicer; or
- a review of canceled checks that cover the most recent 12-month period

CMS must verify and document the previous 12 months' housing history.

For Borrowers who indicate they are living rent-free, CMS 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.

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.

(3) Required Documentation

Where a mortgage reflects payments under a Modification or Forbearance Plan within the 12 months prior to case number assignment, CMS 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.

(D) Collection Accounts (Manual)

(1) Definition

A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.

(2) Standard

CMS must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

(3) Required Documentation

CMS must document reasons for approving a Mortgage when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

(E) Charge Off Accounts (Manual)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

CMS 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.

(3) Required Documentation

CMS 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. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

(F) Collections and Charge-Offs Paid through Closing Transaction

If collection or charge-off accounts are being paid off through our closing transaction, a payoff demand or credit report or supplement will be required. The credit report or supplement must list the same information as a payoff demand (e.g. per diem amount, balance, rate, mailing address.)

The amount reflected on the credit report or supplement can be used UNLESS:

- The account is listed on the Title report
- The reporting date on the credit report is older than 90 days
- Underwriter discretion for layered risk

Example: The account is not recently rated, large balance owed and the borrower is short to close

(G) Derogatory Credit Accounts (Manual)

(1) Definition

Disputed Derogatory Credit Account refers to disputed accounts with late payments in the last 24 months, disputed Charge-Off Accounts, and disputed collection accounts.

(2) Standard

CMS must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items may be excluded from consideration in the underwriting analysis:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided CMS includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

(3) Required Documentation

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, CMS must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

(H) Judgments (Manual)

(1) Definition

Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse or registered domestic partner in a community property state unless excluded by state law, created by a court, or other adjudicating body.

(2) Standard

CMS must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

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.

Regardless of the amount of outstanding Judgments, CMS must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

Exception

A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments prior to closing, and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

CMS must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

CMS must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

(3) Required Documentation

CMS must provide the following 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, and a subordination agreement for any liens existing on title.

(I) Bankruptcy (Manual)

(1) Standard: Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured Mortgage if, at the time of case number assignment, at least two (2) years have elapsed since the date of the bankruptcy discharge. During this time, the Borrower must have:

- re-established good credit; or
- chosen not to incur new credit obligations.

An elapsed period of less than two (2) years, but not less than 12 months, may be acceptable, if the Borrower:

- can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control (must be approved by an Underwriter Manager or Team Lead); and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

(2) Standard: Chapter 13

A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA insured Mortgage, if at the time of case number assignment at least 12 months of the pay-out period under the bankruptcy has elapsed.

CMS must determine that during this time, the Borrower's payment performance has been satisfactory and all required payments have been made on time; and the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

A Chapter 13 bankruptcy that has been discharged for less than two (2) years at the time of case number assignment does not require approval from the bankruptcy court. The borrower must provide a satisfactory letter of explanation and a payment history for the last 24 months. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

Throughout the Chapter 13 bankruptcy and up to two (2) years after discharge, obtain the bankruptcy papers and payment history. The borrower is not required to re-establish new debts for credit history. The borrower must have maintained good credit since the two (2) year discharge and/or chosen not to establish new credit.

A Chapter 13 bankruptcy that has been dismissed for non-payment or default requires a two (2) year waiting period from the dismissal date.

(3) Required Documentation

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, CMS must obtain the bankruptcy and discharge documents.

CMS must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

(J) Foreclosure and Deed in-Lieu of Foreclosure (Manual)

(1) Definition

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if the Borrower had a foreclosure or a DIL of foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the Property to the foreclosing Entity/designee.

Exceptions

CMS may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the foreclosure.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and the Mortgage was later foreclosed.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the foreclosure or DIL of foreclosure, CMS must obtain the Settlement Statement or Closing Disclosure, as applicable, deed or other legal documents evidencing the date of property transfer.

If the foreclosure or DIL of foreclosure was the result of a circumstance beyond the Borrower's control, CMS must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

(K) Pre-Foreclosure Sales (Short Sales) (Manual)

(1) Definition

Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.

(2) Standard

A Borrower is generally not eligible for a new FHA-insured Mortgage if they relinquished a Property through a Short Sale within three (3) years from the date of case number assignment.

This three-year period begins on the date of transfer of title by Short Sale.

(a) Exception for Borrower Current at the Time of Short Sale

A Borrower is considered eligible for a new FHA-insured Mortgage if, from the date of case number assignment for the new Mortgage:

- all Mortgage Payments on the prior Mortgage were made within the month due for the 12-month period preceding the Short Sale; and
- installment debt payments for the same time period were also made within the month due.

(b) Exception for Extenuating Circumstances

CMS may grant an exception to the three-year requirement if the Short Sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the Short Sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's Mortgage was current at the time of the Borrower's divorce, the ex-spouse received the Property, and there was a subsequent Short Sale.

The inability to sell the Property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

(3) Required Documentation

If the credit report does not indicate the date of the Short Sale, CMS must obtain the Settlement Statement or Closing Disclosure, as applicable, deed or other legal documents evidencing the date of property transfer.

If the Short Sale was the result of a circumstance beyond the Borrower's control, CMS must obtain an explanation of the circumstance and document that the circumstance was beyond the Borrower's control. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

(L) Credit Counseling/Payment Plan

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured Mortgage, provided CMS documents that:

- one year of the pay-out period has elapsed under the plan;
- the Borrower's payment performance has been satisfactory and all required payments have been made on time; and
- the Borrower has received written permission from the counseling agency to enter into the mortgage transaction.

iv. Evaluating Liabilities and Debts (Manual)

(A) General Liabilities and Debts (Manual)

(1) Standard

CMS must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *URLA*, and required documentation.

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 (5%) of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless CMS can document that the primary account holder has made all required payments on the account for the previous 12 months.

Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

(2) Required Documentation

CMS must document that the funds used to pay off debts prior to closing came from an [acceptable source](#), and the Borrower did not incur new debts that were not included in the DTI ratio.

(B) Undisclosed Debt and Inquiries (Manual)

(1) Standard

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, CMS must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's MRI.

CMS must obtain a written letter of explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

(2) Required Documentation

CMS must document all undisclosed debt and support for its analysis of the Borrower's debt.

(C) Federal Debt (Manual)

(1) Definition

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

(2) Standard

CMS must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income.

(3) Required Documentation

CMS must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

(D) Alimony, Child Support, and Maintenance (Manual)

(1) Definition

Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.

(2) Standard

For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in CMS's calculation of the Borrower's gross income, CMS must verify and include the monthly obligation in its calculation of the Borrower's debt.

Child Support and Maintenance are to be treated as a recurring liability and CMS must include the monthly obligation in the Borrower's liabilities and debt.

(3) Required Documentation

CMS must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

CMS must also 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.

(4) Calculation of Monthly Obligation

CMS must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

(E) Non-Borrowing Spouse Debt in Community Property States (Manual)

(1) Definition

Non-Borrowing Spouse Debt refers to debts owed by a spouse or registered domestic partner that are not owed by, or in the name of the Borrower.

(2) Standard

If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios.

The non-borrowing spouse's credit history is **not** considered a reason to deny a mortgage application.

(3) Required Documentation

CMS must verify and document the debt of the non-borrowing spouse.

CMS must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

CMS must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be counted in the DTI ratio.

(F) Exclusion of Debts for Legally Separated Couples (Manual)

(1) Definition

Legal separation is a legal process whereby a married couple may formalize a separation while remaining legally married. Legal separation is granted in the form of a court order.

(2) Standard

CMS permits the exclusion of debts for legally separated couples in accordance with state law. Debts in the name of the non-borrowing spouse are not required to be included in the Borrower's qualifying ratios. The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application.

CMS must notate the file referencing the exclusion of any debt from consideration.

(3) Required Documentation

CMS must obtain a copy of the legal separation agreement or court order as proof of legal separation.

CMS must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be excluded.

(G) Deferred Obligations (Manual)

(1) Definition

Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

(2) Standard

CMS must verify and include deferred obligations in the calculation of the Borrower's liabilities.

(3) Required Documentation

CMS 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. CMS must obtain evidence of the actual monthly payment obligation, if available.

(4) Calculation of Monthly Obligation

CMS 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, CMS must utilize the terms of the debt or 5 percent (5%) of the outstanding balance to establish the monthly payment.

(H) Student Loans (Manual)

(1) Definition

Student Loan refers to liabilities incurred for educational purposes.

(2) Standard

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

(3) Required Documentation

If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, CMS 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.

CMS may exclude the payment amount from the 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.

(4) 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

(I) Installment Loans (Manual)

(1) Definition

Installment Loans (excluding Student Loans– applies to loans with Case Numbers assigned on and after June 30, 2016) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan.

(2) Standard

CMS must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's liabilities.

If the credit report does not include a monthly payment for the loan, CMS must use the amount of the monthly payment shown in the loan agreement or payment statement.

(3) Required Documentation

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, CMS must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the [Deferred Obligations](#) section.

(J) Revolving Charge Accounts (Manual)

(1) Definition

A Revolving Charge Account refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

(2) Standard

CMS must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, CMS must use the payment shown on the current account statement or 5 percent (5%) of the outstanding balance.

(3) Required Documentation

CMS must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, CMS must obtain a copy of the most recent charge account statement or use 5 percent (5%) of the outstanding balance to document the monthly payment.

(K) 30-Day Accounts (Manual)

(1) Definition

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

(2) Standard

CMS 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, CMS must utilize 5 percent (5%) of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

(3) Required Documentation

CMS must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. CMS 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.

(L) Business Debt in Borrower's Name (Manual)

(1) Definition

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.

(2) Standard

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless CMS can document that the debt has been paid by the Borrower's business for at least 12 months, on-time payments without delinquency, 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.

This guidance does not apply to Sole Proprietors/Schedule C self-employed borrowers.

(3) Required Documentation

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, CMS 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.

(M) Disputed Derogatory Credit Accounts (Manual)

(1) Definition

Disputed Derogatory Credit Account refers to disputed accounts with late payments in the last 24 months, disputed Charge Off Accounts, and disputed collection accounts.

(2) Standard

If the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, CMS must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.

(N) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report (Manual)

(1) Definition

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance;
- disputed accounts with late payments aged 24 months or greater; or
- disputed accounts that are current and paid as agreed.

(2) Standard

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, CMS must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

(O) Contingent Liabilities (Manual)

(1) Definition

A Contingent Liability is a liability that may result in the obligation to repay only where 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.

(2) Standard

CMS must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless CMS verifies 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. **When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required.**

(3) Required Documentation

(a) Mortgage Assumptions

CMS must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

(b) Cosigned Liabilities

If the cosigned liability is not included in the monthly obligation, CMS 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.

(c) Court Ordered Divorce Decree or Other Court Order

CMS must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments.

(4) Calculation of Monthly Obligation

CMS must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

(P) Collection Accounts (Manual)

(1) Definition

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

(2) Standard

If the credit reports used in the analysis show cumulative outstanding collection account balances of \$2,000 or greater, CMS 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 (5%) 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 specifically excluded by state law.

(3) Required Documentation

CMS must provide the following 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 CMS uses 5 percent (5%) of the outstanding balance, no documentation is required.

(Q) Charge Off Accounts (Manual)

(1) Definition

Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

(2) Standard

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

(R) Private Savings Clubs (Manual)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.

CMS must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

(3) Required Documentation

CMS must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(S) Obligations Not Considered Debt

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

b. Income Requirements (Manual)

Definition of Effective Income (Manual)

Effective Income refers to income that may be used to qualify a Borrower for a Mortgage. Effective Income must be reasonably likely to continue through at least the first three (3) years of the Mortgage, and meet the specific requirements described below.

Income trends must be analyzed, and be considered stable. Declining trends must be carefully analyzed, and must document how the income was determined to be stable. Declining income trends require the use of the most conservative approach when calculating effective income.

i. General Income Requirements (Manual)

CMS must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

CMS may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns. Foreign earned income is acceptable for qualifying purposes so long as it is taxed using U.S. tax returns. The Underwriter must consider the impact of any foreign income exclusion on occupancy requirements.

Negative income must be subtracted from the Borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

ii. Employment Related Income (Manual)

(A) Definition

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

Third Party Verification (TPV) refers to a process through which a Borrower's employment income information is verified directly by CMS with a borrower's employer through the services of a third party vendor.

(B) Standard

CMS may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income.

(C) Required Documentation

For all Employment related Income, CMS must verify the Borrower's most recent two (2) years of employment and income, and document current employment using either the Traditional or Alternative method, and past employment as applicable.

(1) Traditional Current Employment Documentation

CMS must obtain one of the following to verify current employment and income:

- 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 (2) years; or
- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized CMS to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

When pay stubs are handwritten or do not contain YTD earnings, the following additional requirements apply:

- a fully completed written VOE, and
- a payroll ledger documenting YTD earnings signed by the employer.

(2) Alternative Current Employment Documentation

If using alternative documentation, CMS must:

- obtain copies of the pay stubs covering the most recent 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;
- obtain copies of the original IRS W-2 forms from the previous two (2) 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.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

(3) Verbal Verification of Employment (VVOE)

A VVOE is required for current employment, within 10 calendar days of the Note date.

The Underwriter must verify the two (2) year employment history is correct on the URLA. The Underwriter will perform the verification using the following tools: paystubs, W-2's, 1099's, tax returns, gap letters, awards letter, etc.

The Underwriter will condition the file accordingly in order to provide the correct employment dates for the two (2) years on the URLA.

The final URLA should reflect the accurate dates of employment for each employer.

Letters of Explanation for employment gaps (based on program requirements) should be included in the credit package upon clear to close (CTC). Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

Note: A VVOE is not required for CMS Portfolio non-credit qualifying FHA Streamline loan transactions.

Refer to the [Credit Policy](#) for additional information.

(4) Past Employment Documentation

Direct verification of the Borrower's employment and income history for the previous two (2) 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-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, for the previous two (2) tax years.

If the applicant has not been employed with the same employer for the previous two (2) years and/or not all conditions immediately above can be met, then CMS must obtain one or a combination of the following for the most recent two (2) years to verify the applicant's employment history:

- W-2(s)
- written VOE(s)
- direct verification of employment by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized CMS to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements
- evidence supporting enrollment in school or the military during the most recent two (2) full years – **Note:** High School transcripts are not permitted to complete the two year work history

iii. Primary Employment (Manual)

(A) Definition

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

(B) Standard

CMS may use primary Employment Income as Effective Income.

(C) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely be consistently earned, CMS must use the current salary to calculate Effective Income.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, CMS must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, CMS must average the income over the previous two (2) years. If CMS can document an increase in pay rate CMS may use the most recent 12-month average of hours at the current pay rate.

iv. Part-Time Employment (Manual)

(A) Definition

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.

(B) Standard

CMS may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two (2) years and the current position is reasonably likely to continue.

(C) Calculation of Effective Income

CMS must average the income over the previous two (2) years. If CMS can document an increase in pay rate CMS may use a 12-month average of hours at the current pay rate.

v. Overtime, Bonus or Tip Income (Manual)

(A) Definition

Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

(B) Standard

CMS may use Overtime, Bonus or Tip Income as Effective Income if the Borrower has received this income for the past two (2) years and it is reasonably likely to continue.

(C) Calculation of Effective Income

For employees with Overtime, Bonus or Tip Income, CMS must calculate Effective Income by using the lesser of:

- the average Overtime, Bonus or Tip Income earned over the previous two years; or
- the average Overtime, Bonus or Tip Income earned over the previous year.

vi. Seasonal Employment (Manual)

(A) Definition

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

(B) Standard

CMS may consider Employment Income from Seasonal Employment as Effective Income if the Borrower has worked the same line of work for the past two (2) years and is reasonably likely to be rehired for the next season. CMS may consider unemployment income as Effective Income for those with Effective Income from Seasonal Employment.

(C) Required Documentation

For seasonal employees with unemployment income, CMS must document the unemployment income for two (2) full years and there must be reasonable assurance that this income will continue.

(D) Calculation of Effective Income

For employees with Employment Income from Seasonal Employment, CMS must average the income earned over the previous two (2) full years to calculate Effective Income.

vii. Employer Housing Subsidy (Manual)

(A) Definition

Employer Housing Subsidy refers to employer-provided mortgage assistance.

(B) Standard

CMS may utilize Employer Housing Subsidy as Effective Income.

(C) Required Documentation

CMS must verify and document the existence and the amount of the housing subsidy.

(D) Calculation of Effective Income

For employees receiving an Employer Housing Subsidy, CMS may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

viii. Employed by Family-Owned Business (Manual)

(A) Definition

Family-Owned Business Income refers to Employment Income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

(B) Standard

CMS may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

(C) Required Documentation

CMS must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1 (IRS Form 1065), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, CMS must obtain copies of signed personal tax returns or tax transcripts.

(D) Calculation of Effective Income

(1) Salary

For employees who are salaried and whose income has been and will likely continue to be consistently earned, CMS must use the current salary to calculate Effective Income, and the borrower has a two year history of receiving the income from this source.

(2) Hourly

For employees who are paid hourly, and whose hours do not vary, CMS must consider the Borrower's current hourly rate to calculate Effective Income. Management approval is required when the Borrower has not been employed by the family owned business for at least 12 months, or when the Borrower's current salary is not supported by the last 12 months of earnings.

For employees who are paid hourly and whose hours vary, CMS must average the income over the previous two (2) years.

ix. Commission Income (Manual)

(A) Definition

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

(B) Standard

CMS may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

(C) Required Documentation

For all Commission Income, CMS must use traditional or alternative employment documentation.

(D) Calculation of Effective Income

CMS 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.

x. Self-Employment Income (Manual)

(A) Definition

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent (25%) or greater ownership interest.

There are four basic types of business structures. They include:

- sole proprietorship;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

(B) Standard

(1) Minimum Length of Self-Employment

CMS may consider Self-Employment Income if the Borrower has been self-employed for at least two (2) years.

If the Borrower has been self-employed between one and two (2) years, CMS may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two (2) years. Previous education is not acceptable for documenting prior history.

(2) Stability of Self-Employment Income

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 (20%) decline in Effective Income over the analysis period, CMS must document that the business income is now stable.

CMS may consider income as stable after a 20 percent (20%) reduction if CMS 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.

(C) Required Documentation

(1) Individual and Business Tax Returns

CMS must obtain signed, completed individual and business federal income tax returns for the most recent two (2) years, including all schedules.

In lieu of signed individual or business tax returns from the Borrower, CMS may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

(2) Profit & Loss Statements and Balance Sheets

CMS must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax period. A balance sheet is not required for self-employed Borrowers filing Schedule C income.

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.

(3) Business Credit Reports

CMS must obtain a business credit report for all corporations and "S" corporations.

(D) Calculation of Effective Income

CMS must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in Analyzing IRS Forms.

CMS must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self- Employment Income earned over the previous two (2) years; or
- the average gross Self-Employment Income earned over the previous one (1) year.

xi. Additional Required Analysis of Stability of Employment Income

(A) Frequent Changes in Employment

If the Borrower has changed jobs more than three times in the previous 12-month period (three changes equals four jobs), or has changed lines of work, CMS must take additional steps to verify and document the stability of the Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). CMS must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits.

(B) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), CMS 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.

(C) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, CMS 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 federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as Effective Income.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, CMS may use the Borrower's pre-leave income **as Effective Income**.

For Borrowers returning to work after the first Mortgage Payment due date, CMS 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 **as Effective 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. Transactions involving borrowers returning to work after the first Mortgage Payment due date require management review, and approval.

Required Documentation

CMS 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.

xii. Other Sources of Effective Income (Manual)

(A) Disability Benefits (Manual)

(1) Definition

Disability Benefits refer to benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

(2) Required Documentation

CMS must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. CMS must obtain documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three (3) years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, CMS may consider the income effective and reasonably likely to continue. CMS may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

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

(a) Social Security Disability (Manual)

For Social Security Disability income, including Supplemental Security Income (SSI), CMS 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*.

(b) VA Disability

For VA disability benefits, CMS must obtain from the Borrower a copy of the veteran's last Benefits Letter showing the amount of the assistance and one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income from the VA.

If the Benefits Letter does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue for at least three years.

(c) Private Disability

For private disability benefits, CMS 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.

(3) Calculation of Effective Income

CMS must use the most recent amount of benefits received to calculate Effective Income.

(B) Alimony, Child Support, and Maintenance Income (Manual)

(1) Definition

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.

(2) Required Documentation

CMS 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, CMS 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.

CMS must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

CMS must provide evidence that the claimed income will continue for at least three (3) years. CMS may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

(3) 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 (3) months, CMS 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 (6) months, CMS 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 (6) months, CMS must use the average of the income received over the previous two (2) years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two (2) years, CMS must use the average over the time of receipt.

(C) Military Income (Manual)

(1) Definition

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

CMS may not use education benefits as Effective Income.

(2) Required Documentation

CMS must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). CMS 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 and provides a statement from the Commanding Officer confirming the borrower's eligibility for continued service.

(3) Calculation of Effective Income

CMS must use the current amount of Military Income received to calculate Effective Income.

(D) Other Public Assistance (Manual)

(1) Definition

Public Assistance (including foster care income on a case by case basis) refers to income received from government assistance programs.

(2) Required Documentation

CMS must verify and document the income received from the government agency.

If any Public Assistance income is due to expire within three (3) 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, CMS may consider the income effective and reasonably likely to continue.

(3) Calculation of Effective Income

CMS must use the current rate of Public Assistance received to calculate Effective Income.

(E) Automobile Allowances (Manual)

(1) Definition

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

(2) Required Documentation

CMS must verify and document the Automobile Allowance received from the employer for the previous two (2) years.

(3) Calculation of Effective Income

CMS must use the full amount of the Automobile Allowance to calculate Effective Income.

(F) Retirement Income (Manual)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

(1) Social Security Income (Manual)

(a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

(b) Required Documentation

CMS must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, CMS must obtain any 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 SSA Form-1099/1042S, *Social Security Benefit Statement*.

In addition to verification of income, CMS must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA's determination on the Borrower's eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three (3) years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, CMS must consider the income effective and reasonably likely to continue. CMS may not request additional documentation from the Borrower to demonstrate continuance of Social Security Income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

(c) Calculation of Effective Income

CMS must use the current amount of Social Security Income received to calculate Effective Income.

(2) Pension (Manual)

(a) Definition

Pension refers to income received from the Borrower's former employer(s).

(b) Required Documentation

CMS must verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three (3) years.

CMS must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower's Pension/retirement letter from the former employer.

(c) Calculation of Effective Income

CMS must use the current amount of Pension income received to calculate Effective Income. **Income from a pension may not be “grossed up.”**

(3) Individual Retirement Account and 401(k) (Manual)

(a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

(b) Required Documentation

CMS must verify and document the Borrower’s receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three (3) years.

CMS must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

(c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, CMS must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, CMS must use the average of the IRA/401(k) Income received over the previous two (2) years to calculate Effective Income. If IRA/401(k) Income has been received for less than two (2) years, CMS must use the average over the time of receipt.

The borrower must have an established and continual distribution plan. At-will withdrawals from a retirement account may not be considered Effective Income.

(G) Rental Income (Manual)

(1) Definition

Rental Income refers to income received or to be received from the subject Property or other real estate holdings.

(2) Rental Income Received from the Subject Property (Manual)

(a) Standard

CMS 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.

(b) Required Documentation

Required documentation varies depending upon the length of time the Borrower has owned the Property.

(i) 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

CMS must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form **of the Borrower** Handbook 4000.1 276 Publish Date: 08/26/2015 | Effective Date: 09/14/2015 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

One-Unit

CMS 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.

(ii) History of Rental Income

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, CMS must verify and document the existing Rental Income by obtaining the existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation), and the Borrower's most recent tax returns, including Schedule E, from the previous two (2) years.

For Properties with less than two (2) years of Rental Income history, CMS must document the date of acquisition by providing the deed, Settlement Statement or Closing Disclosure, as applicable or other legal document.

(c) Calculation of Effective Income

CMS must add the net subject property Rental Income to the Borrower's gross income. CMS may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

(i) 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, CMS must use the lesser of:

- the monthly operating income reported on Freddie Mac Form 998; or
- 75 percent (75%) of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

(ii) History of Rental Income

CMS must calculate the Rental Income by averaging the amount shown on the 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 (2) years, CMS must annualize the Rental Income for the length of time the Property has been owned.

(3) Rental Income from Other Real Estate Holdings (Manual)

(a) Standard

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. CMS 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.

(b) Required Documentation

(i) Limited or No History of Rental Income

Where the Borrower does not have a history of Rental Income for the Property since the previous tax filing, including Property being vacated by the Borrower, CMS must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent (25%) equity in the Property.

The appraisal is not required to be completed by an FHA Roster Appraiser.

Two- to Four-Units

CMS 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 the prospective leases if available.

One-Unit

CMS 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.

(ii) History of Rental Income

CMS must obtain the Borrower's last two (2) years' tax returns with Schedule E.

(c) Calculation of Effective Net Rental Income

(i) 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, CMS must deduct the PITI from the lesser of:

- the monthly operating income reported on Freddie Mac Form 998, or
- 75 percent (75%) of the lesser of:
 - fair market rent reported by the Appraiser; or
 - the rent reflected in the lease or other rental agreement.

Where the Borrower has no history of receiving Rental Income, CMS requires an appraisal with 25% equity.

(ii) History of Net Rental Income

CMS 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 (2) years, CMS must annualize the Rental Income for the length of time the Property has been owned.

For Properties with less than two (2) years of Rental Income history, CMS must document the date of acquisition by providing the deed, Settlement Statement or Closing Disclosure, as applicable or other 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.

(4) Boarders of the Subject Property (Manual)

(a) Definition

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

(b) Standard

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.

(c) Required Documentation

CMS must obtain two (2) years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, CMS must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

(d) Calculation of Effective Income

CMS must calculate the Effective Income by using the lesser of the two-year average or the current lease.

(H) Investment Income (Manual)

(1) Definition

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.

(2) Required Documentation

CMS must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two (2) years and the most recent account statement.

(3) Calculation of Effective Income

CMS must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two (2) years; or
- the average Investment Income earned over the previous one (1) year.

CMS 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.

(I) Capital Gains and Losses (Manual)

(1) Definition

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.

(2) Standard

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.

(3) Required Documentation

Three (3) 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.

(J) Expected Income (Manual)

(1) Definition

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

(2) Standard

CMS may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

(3) Required Documentation

CMS must verify and document the existence and amount of Expected Income with the employer in writing and that it is **guaranteed** to begin within 60 Days of mortgage closing. Any new job should have a non-revocable binding agreement in order to determine that the expected employment is guaranteed.

For expected Retirement Income, CMS must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

(4) Calculation of Effective Income

Income is calculated in accordance with the standards for the type of income being received. CMS must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

(K) Trust Accounts (Manual)

(1) Definition

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

(2) Required Documentation

CMS must verify and document the existence of the Trust Agreement or other trustee statement. CMS must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

CMS must verify that regular payments will continue for at least the first three (3) years of the mortgage term.

(3) Calculation of Effective Income

CMS must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

(L) Annuities or Similar (Manual)

(1) Definition

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

(2) Required Documentation

CMS must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three (3) years of the Mortgage. CMS must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

The borrower must have an established, and continual distribution plan. At-will withdrawals from an annuity may not be considered Effective Income.

(3) Calculation of Effective Income

CMS must use the current rate of the annuity to calculate Effective Income.

CMS 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 Annuity Income.

(M) Notes Receivable Income (Manual)

(1) Definition

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.

(2) Required Documentation

CMS must verify and document the existence of the Note. CMS 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 (3) years of the Mortgage.

(3) Calculation of Effective Income

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, CMS must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, CMS must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

(N) Non-Taxable Income (Grossing Up) (Manual)

(1) Definition

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- some federal government employee Retirement Income;
- Railroad Retirement benefits;
- some state government Retirement Income;
- certain types of disability and Public Assistance payments;
- Child Support;
- military allowances; and
- other income that is documented as being exempt from federal income taxes.

(2) Required Documentation

CMS 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.

(3) 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 (15%) 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, CMS may Gross Up the Non-Taxable Income by 15 percent (15%).

CMS may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

(O) Foster Care Payment

(1) Definition

Foster Care Payment refers to payment received from a state- or county-sponsored organization for providing temporary care for one or more individuals.

(2) Standard

Foster care payment may be considered acceptable and stable income if the Borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.

(3) Required Documentation

The Mortgagee must obtain a written verification of foster care payment from the organization providing it, verify and document that the Borrower has a two-year history of providing foster care services and receiving foster care payment, and that the foster care payment is reasonably likely to continue.

(4) Calculation of Effective Income

The Mortgagee must calculate foster care payment by using the lesser of:

- average foster care payment received over the previous two years; or
- average foster care payment received over the previous year.

xiii. Unacceptable Sources of Income (Manual)

Sources of Unacceptable Income (Manual)

The following income sources are not acceptable for purposes of qualifying the borrower:

- Any unverified source of income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options
- Trailing spouse income
- Welfare benefits
- Unverifiable income
- VA education benefits
- Income derived from State approved marijuana dispensary, even if W2 wages

c. Asset Requirements (Manual)

i. General Asset Requirements (Manual)

CMS may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

Third Party Verification (TPV) refers to a process through which a Borrower's asset information is verified directly by CMS with a borrower's financial institution through the services of a third party vendor.

(A) Earnest Money Deposit (Manual)

CMS must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent (1%) 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
- 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; 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.

Cash on hand is not permitted as a source of funds. If the source of the earnest money deposit was a gift, CMS must verify that the gift is in compliance with [Gifts \(Personal and Equity\)](#).

(B) Cash to Close (Manual)

CMS must document all funds that are used for the purpose of qualifying for or closing a Mortgage, including those to satisfy debt or pay costs outside of closing.

CMS must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

(1) Determining the Amount Needed for Closing

For a purchase transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total cost to acquire the Property and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured Mortgage is the difference between the total payoff requirements of the Mortgage being refinanced and the total mortgage amount.

(2) Mortgagee Responsibility for Estimating Settlement Requirements

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

(a) Origination Fees and Other Closing Costs

CMS or sponsored TPO may charge a reasonable origination fee.

CMS or sponsored TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the Mortgage.

Charges may not exceed the actual costs.

CMS must comply with HUD's Qualified Mortgage Rule at 24 CFR § 203.19.

(b) Discount Points

Discount Points refer to a charge from CMS for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

(c) Types of Prepaid Items (Including Per Diem Interest)

Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the CFPB.

(d) Non-Realty or Personal Property

Non-Realty or Personal Property items (chattel) that the Borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum Mortgage, are included in the total cash requirements for the Mortgage.

(e) Upfront Mortgage Insurance Premium Amounts

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the Mortgage or paid entirely in cash. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than \$1.00.

(f) Real Estate Agent Fees

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

(g) Repairs and Improvements

Repairs and improvements, or any portion paid by the Borrower that cannot be financed into the Mortgage, are part of the Borrower's total cash requirements.

(h) Premium Pricing on FHA-Insured Mortgages

Premium Pricing refers to the aggregate credits from a Mortgagee or Third Party Originator (TPO) for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Premium Pricing is not included as part of the Interested Party limitation unless the Mortgagee or TPO is the property seller, real estate agent, builder or developer.

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.

(i) Interested Party Contributions on the Closing Disclosure

CMS may apply Interested Party credits to the origination fees, other closing costs and discount points including any items Paid Outside Closing (POC).

POC permitted for appraisal and credit report fees. Must be documented with a cancelled check or debit card transaction that came from the borrower's own funds and not a credit card or seller contribution.

CMS must identify the total Interested Party credits on the front page of the Settlement Statement or Closing Disclosure, as applicable or similar legal document or in an addendum. CMS must identify each item paid by Interested Party Contributions.

Closing costs and prepaids may not be used to meet the borrower's Minimum Required Investment (MRI). However, in a case where the borrower has paid a fee outside of closing from an eligible account (checking/debit, etc.), and where there are excess credits from an interested party contribution (i.e. Lender Credit/Seller Credit), a refund of that POC item may be applied to the MRI and the excess interested party credit may be applied to cover the fee.

(j) 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 Borrower's Minimum Required Investment (MRI), if CMS documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs at the time of underwriting, without consideration of the real estate tax credit.

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.

(C) Reserves (Manual)

Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another Property; or
- borrowed funds from any source.

(1) Reserves for One- to Two-Unit Properties

CMS must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.

(2) Reserves for Three- to Four-Unit Properties

CMS must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit Properties.

ii. Source Requirements for the Borrower's Minimum Required Investment (Manual)

(A) Definition

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent (3.5%) of the Adjusted Value of the Property.

(B) Standard

CMS may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

- (1) the seller of the Property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

iii. Sources of Funds (Manual)

CMS must verify liquid assets for cash to close and Reserves as indicated.

(A) Checking and Savings Accounts (Manual)

(1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

(2) Standard

CMS must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

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

(3) Required Documentation

(a) Traditional Documentation

Direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:

- the Borrower has authorized CMS 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.

(b) Alternative Documentation

A statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, CMS must obtain statement(s) for the most recent two months.

(B) Cash on Hand (Manual)

(1) Definition

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

(2) Standard

Cash on hand is not an acceptable source of funds.

(C) Retirement Accounts (Manual)

(1) Definition

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

(2) Standard

CMS may include up to 60 percent (60%) 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.

(3) Required Documentation

CMS 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.

(D) Stocks and Bonds (Manual)

(1) Definition

Stocks and Bonds are investment assets accumulated by the Borrower.

(2) Standard

CMS 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, CMS 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 CMS verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

(3) Required Documentation

CMS 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 CMS must obtain a copy of each stock or bond certificate.

(E) Private Savings Clubs (Manual)

(1) Definition

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

(2) Standard

CMS may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

CMS must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. CMS must also determine that the received funds were reasonably accumulated, and not borrowed.

(3) Required Documentation

CMS must obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

(F) Gifts (Personal and Equity) (Manual)

(1) Definition

Gifts refer to the contributions of cash or equity with no expectation of repayment.

(2) Standards for Gifts

(a) Acceptable Sources of Gifts Funds

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union; or
- a charitable organization.

Any gift of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(b) Reserves

Surplus gift funds may not be considered as cash Reserves.

(c) Donor's Source of Funds

Cash on Hand is not an acceptable source of donor gift funds.

Student Loan Funds (includes employer tuition reimbursements, excess financial aid proceeds, and reimbursements from schools that were derived from borrowed funds) is not an acceptable source of donor gift funds.

(3) Required Documentation

CMS 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.

A Family Member's relationship is documented by obtaining:

- A gift letter signed and dated by the borrower(s) and gift donor to state the relationship, and
- An independent verbal gift letter verification

When discrepancies exist, such as inconsistencies between the gift letter and verbal verification, or appearance of alterations or multiple gift letters from the originator, then additional documentation must be provided to support the donor's relationship.

Documenting the Transfer of Gifts

CMS must verify and document the transfer of gift funds from the donor to the Borrower. The donor's bank statement is ALWAYS required to ensure that all funds are from an acceptable source, regardless of the manner in which the funds are transferred.

Important: Cash in hand is **never** an acceptable source of donor gift funds.

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

If the gift donor's beginning account balance is enough to cover the gift transfer, that is considered an acceptable source. If additional deposits made are needed to provide the gift funds, the source of funds must be documented.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



The table below describes the requirements for the transfer of gift funds.

If the gift funds...	How to document
Are in the borrower's account	Obtain <ul style="list-style-type: none"> • Donor's Bank Statement • A copy of the withdrawal document showing that the withdrawal was from the donor's account, and • The borrower's deposit slip and bank statement showing the deposit.
<ul style="list-style-type: none"> • Are to be provided at closing, and • Are in the form of a cashier's check, certified check, money order, official check, or any other type of bank check from the donor's account 	Obtain <ul style="list-style-type: none"> • Donor's Bank Statement • Copy of the withdrawal from the donor's account, and • Copy of the certified check payable to the closing agent.
<ul style="list-style-type: none"> • Are to be provided at closing, and • Are in the form of an electronic wire transfer to the closing agent 	Obtain: <ul style="list-style-type: none"> • Donor's Bank Statement • Copy of the wire transfer from the donor's account. • Copy of wire transfer receipt from the closing agent.
<ul style="list-style-type: none"> • Are being borrowed by the donor, and • Documentation from the bank or other savings account is not available. 	Obtain: <ul style="list-style-type: none"> • Donor's Bank Statement • Have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender.
For gifts of land	Obtain: <ul style="list-style-type: none"> • proof of ownership by the donor, and • evidence of the transfer of title to the Borrower.

CMS and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

(4) Standards for Gifts of Equity

(a) Who May Provide Gifts of Equity

Only Family Members may provide equity credit as a gift on Property being sold to other Family Members.

(b) Required Documentation

CMS 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.

(G) Interested Party Contributions (Manual)

(1) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third Party Originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

(2) Standard

Interested Parties may contribute up to 6 percent (6%) of the sales price toward the Borrower's origination fees, other closing costs and discount points. The 6 percent (6%) limit also includes:

- Interested Party payment for permanent and temporary interest rate buydowns, and other payment supplements;
- payments of mortgage interest for fixed rate Mortgages;
- Mortgage Payment protection insurance; and
- payment of the UFMIP.

Interested Party Contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party Contributions exceeding 6 percent (6%) are considered an inducement to purchase.

Interested Party Contributions may not be used for the Borrower's MRI.

Exceptions

Premium Pricing credits from the Mortgagee or TPO are excluded from the 6 percent (6%) limit provided the Mortgagee or TPO is not the seller, real estate agent, builder or developer.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution. The satisfaction of a PACE lien or obligation against the Property by the property owner is not considered an Interested Party Contribution.

(3) Required Documentation

CMS must document the total Interested Party Contributions on the sales contract or applicable legally binding document, form HUD-92900-LT, and Closing Disclosure or similar legal document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, the Mortgagee must provide a copy of this document to the assigned Appraiser.

(H) Inducements to Purchase (Manual)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the purchase price when computing the Adjusted Value of the Property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent (6%) of the purchase price;
- contributions exceeding the origination fees, other closing costs, prepaid items and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

(1) Personal Property (Manual)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

(2) Sales Commission (Manual)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the Property being purchased by the Borrower that exceeds what is typical for the area.

(3) Rent Below Fair Market (Manual)

A reduced rent is an inducement to purchase when the sales contract includes terms permitting the Borrower to live in the Property rent-free or has an agreement to occupy the Property at a rental amount greater than 10 percent below the Appraiser's estimate of fair market rent. When such an inducement exists, the amount of inducement is the difference between the rent charged and the Appraiser's estimate of fair market rent prorated over the period between execution of the sales contract and execution of the Property sale.

Rent below fair market is not considered an inducement to purchase when a builder fails to deliver a Property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

(I) Down-payment Assistance Programs (Manual)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

Mortgagees must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

FHA does not permit nonprofit entities to provide gifts to pay off:

- Installment Loans
- credit cards
- collections
- Judgments
- liens
- similar debts

(1) Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a Borrower's down-payment, and the organization providing the gift loses or gives up its federal tax-exempt status, FHA will recognize the gift as an acceptable source of the down-payment provided that:

- the gift is made to the Borrower;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(2) Mortgagee Responsibility for Ensuring that Down-payment Assistance Provider is a Charitable Organization

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

Mortgagees are responsible for ensuring that an Entity providing down-payment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

(J) Secondary Financing (Manual)

Secondary Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt. The table below provides the Combined Loan-to-Value and Maximum Mortgage Amount with Secondary Financing from various entities.

- Notes and Deeds are not required for existing secondary financing. The subordination agreement is always required. This applies for all FHA Refinances.
- Notes and Deeds are required for new secondary financing, no exceptions.

Combined Loan-to-Value and Maximum Mortgage Amount with Secondary Financing		
Entity Type	CLTV	Maximum Loan Amount
Family Members	Base Loan Amount and secondary financing amount must not exceed 100 percent (100%) of the Adjusted Value.	The insured first mortgage may not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located.
Private Individuals and Other Organizations	Base Loan Amount and secondary financing amount must not exceed the applicable FHA Loan-to-Value (LTV) Limit	Base Loan Amount and secondary financing amount must not exceed the FHA Nationwide Mortgage Limit for the area in which the Property is located.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

(a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of Government, the Entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 Entities to be Instrumentalities of Government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the insured first Mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) for the area in which the Property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in Source Requirements for the Borrower's MRI;
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- the functions performed are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as Lender.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The Mortgagee must enter information on HUD-approved Nonprofits into [FHAC](#), as applicable.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

Mortgagees must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the loan instruments; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured Mortgage, signed by an authorized official and containing the following information:
 - the FHA case number for the first Mortgage;
 - the complete property address;
 - the name, address and Tax ID for the nonprofit;
 - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
 - the amount and purpose for the secondary financing provided to the Borrower; and
 - a statement indicating whether the secondary financing:
 - will close in the name of the Governmental Entity; or
 - will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:

- the functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as Lender.

(2) Secondary Financing Provided by HUD-Approved Nonprofits (Manual)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

(a) Definition

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties (HUD Homes) at a discount, and provide secondary financing.

HUD-approved Nonprofits appear on the HUD Nonprofit Roster.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 Entities must follow the guidance in [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(c) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

CMS must enter information into [FHAC](#) on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

(3) Family Members (Manual)

(a) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent (100%) of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



- any periodic payments are level and monthly;
- there is no prepayment penalty;
- if the Family Member providing the secondary financing borrows the funds, the lending source may not be an Entity with an Identity of Interest in the sale of the Property, such as the:
 - seller;
 - builder;
 - loan originator; or
 - real estate agent;
- mortgage companies with retail banking Affiliates may have the Affiliate lend the funds to the Family Member. However, the terms and conditions of the loan to the Family Member cannot be more favorable than they would be for any other Borrowers;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject Property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another Entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with 24 CFR § 203.32.

(b) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the loan instruments.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, CMS must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including CMS.

(4) Private Individuals and Other Organizations (Manual)

(a) Definition

Private Individuals and Other Organizations refer to any individuals or Entities providing secondary financing which are not covered elsewhere in this Secondary Financing section.

(b) Standard

FHA will insure a first Mortgage on a Property that has a second Mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first Mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower.
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA LTV limit;
- the Base Loan Amount and secondary financing amount must not exceed the [Nationwide Mortgage Limits](#).
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving CMS 30 Days advance notice.

CMS does not permit the use of secondary financing from Private Individuals and Other Organizations to be used for the borrower's MRI.

(c) Required Documentation

CMS must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

(K) Loans (Manual)

A Loan refers to an arrangement in which a lender gives money or Property to a Borrower and the Borrower agrees to return the Property or repay the money.

(1) Collateralized Loans (Manual)

(a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or Real Property. These assets may include stocks, bonds, and real estate other than the Property being purchased.

(b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. CMS must reduce the amount of the corresponding asset by the amount of the collateralized loan.

Unsecured loans such as cash advances on credit cards and borrowing against Personal Property are not acceptable sources for the Borrower's Minimum Required Investment (MRI). Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins, or other collectibles, household goods and furniture.

(c) Who May Provide Collateralized Loans

Only an independent third party may provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other Interested Party may not provide such funds. Unacceptable borrowed funds include:

- unsecured signature loans;
- cash advances on credit cards;
- borrowing against household goods and furniture; and
- other similar unsecured financing.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(d) Required Documentation

CMS must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

(2) Retirement Account Loans (Manual)

(a) Definition

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

(b) Standard

CMS must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

(c) Required Documentation

CMS must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

(3) Disaster Relief Loans (Manual)

(a) Definition

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

(b) Standard

Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the Property being purchased, it must be clearly subordinate to the FHA insured Mortgage, and meet the requirements for [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

(c) Required Documentation

CMS must verify and document the promissory Note.

(L) Grants (Manual)

(1) Disaster Relief Grants (Manual)

(a) Definition

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

(b) Required Documentation

CMS must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (Manual)

CMS does not permit down-payment assistance programs and this content is included for informational purposes only.

(a) Definition

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of down-payment assistance and may be used in conjunction with FHA-insured financing. Secondary financing that creates a lien against the Property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

(b) Standard

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in Source Requirements for the Borrower's MRI.

(c) Required Documentation

Mortgagees must verify and document the Borrower's receipt of the grant and terms of use.

Mortgagees must also verify and document that the Retention Agreement required by the FHLB is recorded against the Property and results in a Deed Restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the Property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

(M) Employer Assistance (Manual)

(1) Definition

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.

(2) Standard

(a) Relocation Guaranteed Purchase

CMS may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

(b) Employer Assistance Plans

The amount received under Employer Assistance Plans may be used as cash to close.

(3) Required Documentation

(a) Relocation Guaranteed Purchase

If the Borrower is being transferred by their company under a guaranteed sales plan, CMS 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.

CMS must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

(b) Employer Assistance Plans

CMS must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, CMS must verify and document that the Borrower has sufficient cash for closing.

(N) Sale of Personal Property (Manual)

(1) Definition

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

(2) Standard

CMS must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

(3) Required Documentation

Borrowers may sell Personal Property to obtain funds for closing. Only titled items to which the borrower can prove ownership are acceptable (i.e. cars, boats, etc.). Personal items such as jewelry, appliances, etc. are not acceptable.

CMS 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. Cash received for the sale of personal property is not acceptable. 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.

(O) Trade-In of Manufactured Housing (Manual)

(1) Definition

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured Home that is not considered real estate to a Manufactured Housing dealer or an independent third party.

(2) Standard

The net proceeds from the Trade-In of a Manufactured Home may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

(3) Required Documentation

CMS must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. CMS must obtain documentation to support the Trade Equity.

(P) Sale of Real Property (Manual)

(1) Definition

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

(2) Standard

Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.

(3) Required Documentation

CMS must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or Closing Disclosure, as applicable or similar legal document.

CMS must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sale proceeds.

(Q) Real Estate Commission from Sale of a Subject Property (Manual)

(1) Definition

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.

(2) Standard

CMS may consider Real Estate Commissions from Sale of 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.

(3) Required Documentation

CMS 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.

(R) Rent Credits (Manual)

(1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.

(2) Standard

CMS may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.

(3) Required Documentation

CMS must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

iv. Unacceptable Sources of Funds (Manual)

Sources of funds considered ineligible for asset evaluation include the following:

- Donated funds in any form, such as cash or bonds donated by the seller, builder, or selling agent
- Proceeds of a personal or unsecured loan
- Cash advances on a revolving charge account or unsecured line of credit
- A gift that must be repaid in full or in part
- A gift that was received from an unacceptable donor
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- The proceeds from an IRS Tax Code 1031 Exchange on an owner occupied transaction
- Salary advances
- Cash for which the source cannot be verified (e.g., garage sales, cash saved at home)
- Cryptocurrency (digital assets such as bitcoins)
- Funds in a Custodial or “In Trust For” Account
- The sale of personal property for cash
- Systematic Savings
- Student Loan Funds (includes employer tuition reimbursements, excess financial aid proceeds, and reimbursements from schools that were derived from borrowed funds)

d. Final Underwriting Decision (Manual)

The Direct Endorsement (DE) underwriter is ultimately responsible for making an underwriting decision on behalf of their DE Mortgagee in compliance with HUD requirements.

i. Duty of Care/Due Diligence (Manual)

The underwriter must exercise the same level of care that would be used in underwriting a Mortgage entirely dependent on the Property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured Mortgage.

ii. Specific Underwriter Responsibilities (Manual)

The underwriter must review each Mortgage as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Mortgage Payments to make an underwriting decision on behalf of their DE Mortgagee in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the mortgage obligation according to the terms of the Mortgage.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Mortgage, and the overall acceptability of the Mortgage for FHA insurance;
- identify any inconsistencies in information obtained by CMS in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Mortgage; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

iii. Underwriting of Credit and Debt (Manual)

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report (see [Credit Requirements](#)).

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for rejecting the mortgage application.

Compensating factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the mortgage transaction or the purchase of the Property.

iv. Underwriting of Income (Manual)

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see [Income Requirements](#)).

v. Underwriting of Assets (Manual)

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation (see [Asset Requirements](#)).

vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)

The underwriter must review the MIP and mortgage amount and verify that they have been supported with the proper documentation (see [Underwriting](#)).

vii. Calculating Qualifying Ratios (Manual)

(A) General Information about Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Mortgage Payment to Effective Income Ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the [Approvable Ratio Requirements Chart](#).

CMS must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

(B) Calculating Total Mortgage Payment

The total Mortgage Payment includes:

- P&I;
- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- MIP;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

(1) Estimating Real Estate Taxes

CMS must use accurate estimates of monthly tax escrows when calculating the total Mortgage Payment.

In New Construction cases, property tax estimates must be based on the land and improvements. To calculate the amount of taxes to be paid, multiply the taxable value of the subject property by the county millage rate. (Typically, the sales price is the taxable value)

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(C) Calculating Total Fixed Payment

The Total Fixed Payment includes:

- the total Mortgage Payment; and
- monthly obligations on all debts and liabilities.

viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	31/43	No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	37/47	One of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	Two of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten Mortgages with qualifying ratios as described above.

(A) Energy Efficient Homes

(1) Standard

For Mortgages on New Construction, the Borrower is eligible for the EEH stretch ratios when the Property meets or exceeds the higher of:

- the latest energy code standard that has been adopted by HUD through a Federal Register notice;
- the applicable International Energy Conservation Code (IECC) year used by the state or local building code; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

For Mortgages on Existing Construction, the Borrower is eligible for the EEH stretch ratios when the property meets either of the following conditions:

- homes that currently score a “6” or higher on the Home Energy Score scale;
- homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home’s score to a “6” or higher are completed prior to closing; or
- a Manufactured Home that is certified as ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home.

2) Required Documentation

The following documents must be included in the case binder submitted for endorsement:

- For Mortgages on Existing Construction, a copy of the Home Energy Score Report, or a photo of the ENERGY STAR label on a Manufactured Home.
- For Mortgages on New Construction, a copy of the Builder’s Certification, form HUD-92541, to evidence the IECC code, successor code, or local/state building code used; or the manufacturer’s invoice of the Manufactured Home indicating that the unit is ENERGY STAR qualified.

(B) Verified and Documented Cash Reserves

Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or
- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Reserves are calculated as the Borrower's total assets as described in [Asset Requirements](#) less:

- the total funds required to close the Mortgage;
- gifts;
- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

(C) Minimal Increase in Housing Payment

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than \$100 or 5 percent (5%), whichever is less; and
- there is a documented 12 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.
- If the Borrower has no current housing payment CMS may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

(D) No Discretionary Debt

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

(E) Significant Additional Income Not Reflected in Effective Income

Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- CMS must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

(F) Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) *Lenders Handbook* - VA Pamphlet 26-7, Chapter 4.9 b and e.

(1) Calculating Residual Income

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Mortgage Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Non-Taxable Income.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



If available, CMS must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, CMS may rely upon current pay stubs.

For estimated maintenance and utilities, CMS must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the *Lenders Handbook - VA Pamphlet 26-7*.

(2) Using Residual Income as a Compensating Factor

To use residual income as a compensating factor, CMS must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine “family size.”

Exception

CMS may omit any individuals from “family size” who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in *Lenders Handbook - VA Pamphlet 26-7*, select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

x. Borrower Approval or Denial (Manual)

(A) Re-Underwriting

CMS must re-underwrite a Mortgage when any data element of the Mortgage changes and/or new Borrower information becomes available.

(B) Documentation of Final Underwriting Review Decision

The underwriter must complete the following documents to evidence their final underwriting decision. For cases involving Mortgages to HUD employees and Test Cases, CMS completes the following and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice prior to closing.

(1) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

The underwriter must record the following items on form HUD-92900-LT:

- their decision;
- any compensating factors;
- any modification of the mortgage amount and approval conditions under “Underwriter Comments,” and
- their DE Identification Number and signature.

(2) Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value

The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions.

(3) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

The underwriter must complete form HUD-92900-A as directed in the form instructions.

An authorized officer of CMS, the Borrower, and the underwriter must execute form HUD-92900-A, as indicated in the instructions.

(C) Conditional Approval

The underwriter must condition the approval of the Borrower on the completion of the final *URLA* and form HUD-92900-A at or before closing if the underwriter relied on an initial *URLA* and form HUD-92900-A in underwriting the Mortgage.

(D) HUD Employee Mortgages

If the Mortgage involves a HUD employee, CMS must condition the loan on the approval of the Mortgage by HUD. CMS must submit the case binder to the Processing and Underwriting Division Director at the Jurisdictional HOC for final underwriting approval.

(E) Notification of Borrower of Approval and Term of the Approval

CMS must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the Property, indicated as Action Date on form HUD-92800.5B.

(F) Responsibilities upon Denial

When a Mortgage is denied, CMS must comply with all requirements of the Fair Credit Reporting Act (FCRA), and the Equal Credit Opportunity Act (ECOA), as implemented by Regulation B (12 CFR Part 1002).

CMS must complete the Mortgage Credit Reject in FHAC. Mortgage Credit Reject must be completed in the following cases:

- the file contains unverifiable information or documentation, or substantial inconsistencies that could not be resolved, or
- the loan does not meet FHA requirements that would result in denial of FHA Mortgage Insurance

6. Closing

a. Mortgagee Closing Requirements

The case binder must contain all documentation that has been relied upon in support of CMS's decision to approve the Mortgage.

i. Chain of Title

CMS must obtain [evidence of prior ownership](#) when a Property was sold within 12 months of the case number assignment date. CMS must review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.

ii. Title

CMS must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the FHA-insured Mortgage is in first lien position.

(A) Good and Marketable Title

CMS must determine if there are any exceptions to good and marketable title not covered by the General Waiver (see [General Waiver of Title Objections](#)).

CMS must review any exceptions discovered during the title search and decide whether such title exceptions affect the Property's value and/or marketability.

If CMS determines that any exception affects the Property's value and/or marketability, CMS must request a waiver.

(B) Requests for Title Exceptions Not Covered by the General Waiver

CMS must submit a request for a waiver when the Title Exception is not covered by the General Waiver, to the attention of the Processing and Underwriting Division Director at the Jurisdictional HOC prior to endorsement. The request must include the case number, the specific guideline and the reason CMS is asking for the waiver. If the Jurisdictional HOC grants the requested waiver, the HOC will notify CMS in writing. CMS must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the Mortgage is not eligible for FHA insurance.

(C) Manufactured Housing

Good and marketable title showing the Manufactured Home and land are classified as real estate at the time of closing is required.

If there were two existing titles at the time the housing unit was purchased, CMS must ensure that all state or local requirements for proper purging of the title (chattel or equivalent debt instrument) have been met, and the subject Property is classified as real estate prior to closing.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(D) UCC Filings

If Title is taking exception to a Uniform Commercial Code (UCC) filing, then it must be removed or subordinated.

(E) General Waiver of Title Objections

HUD shall not object to title by reason of the following matters:

(a) Violations of a restriction based on race, color or creed, even where such restriction provides for a penalty of reversion or forfeiture of title or a lien for liquidated damage.

(b)(1) Aviation easements, which were approved by the Secretary at the time of the origination of the mortgage, and other customary easements for public utilities, party walls, driveways, and other purposes.

(2) Easements for public utilities along one or more of the property lines and extending not more than 10 feet therefrom and for drainage or irrigation ditches along the rear 10 feet of the property, provided the exercise of the rights thereunder do not interfere with any of the buildings or improvements located on the subject property.

(c) Easements for underground conduits which are in place and do not extend under any buildings on the subject property;

(d) Mutual easements for joint driveways constructed partly on the subject property and partly on adjoining property, provided the agreements creating such easements are of record;

(e) Encroachments on the subject property by improvements on adjoining property where such encroachments do not exceed 1 foot, provided such encroachments do not touch any buildings or interfere with the use of any improvements on the subject property;

(f) Encroachments on adjoining property by eaves and overhanging projections attached to improvements on subject property where such encroachments do not exceed 1 foot.

(g) Encroachments on adjoining property by hedges, wooden or wire fences belonging to the subject property;

(h) Encroachments on adjoining property by driveways belonging to subject property where such encroachments do not exceed 1 foot, provided there exists a clearance of at least 8 feet between the buildings on the subject property and the property line affected by the encroachment;

(i) Variations between the length of the subject property lines as shown on the application for insurance and as shown by the record or possession lines, provided such variations do not interfere with the use of any of the improvements on the subject property and do not involve a deficiency of more than 2 percent with respect to the length of the front line or more than 5 percent with respect to the length of any other line;

(j) Encroachments by garages or improvements other than those which are attached to or a portion of the main dwelling structure over easements for public utilities, provided such encroachment does not interfere with the use of the easement or the exercise of the rights of repair and maintenance in connection therewith;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(k) Violations of cost or set back restrictions which do not provide a penalty of reversion or forfeiture of title, or a lien for liquidated damages which may be superior to the lien of the insured mortgage. Violations of such restrictions which do provide for such penalties, provided such penalty rights have been duly released or subordinated to the lien of the insured mortgage, or provided a policy of title insurance is furnished expressly insuring HUD against loss by reason of such penalties.

(l) Customary building and use restrictions which:

(1) Are coupled with a reversionary clause, provided there has been no violation prior to the date of the deed to HUD; or

(2) Are not coupled with a reversionary clause and have not been violated to a material extent.

(m) Outstanding oil, water or mineral rights (or damage caused by the exercise of such rights) which are customarily waived by prudent leading institutions and leading attorneys in the community.

(n) The voluntary or involuntary conveyance of a part of the subject property pursuant to condemnation proceedings or in lieu of condemnation proceedings, if:

(1) The part conveyed does not exceed 10 percent by area of the property;

(2) No damage to existing structures, improvements, or unrepaired damage to sewage, water, or paving has been suffered;

(3) All of the payment received as compensation for the taking by condemnation or conveyance in lieu of condemnation has been applied to reduction of the mortgage indebtedness;

(4) The conveyance occurred subsequent to insurance of the mortgage; and

(5) There is included with the documents and information furnished to HUD with the application for insurance benefits, a statement by the mortgagee that the requirements of this paragraph have been met.

(o) Federal tax liens and rights of redemption arising therefrom if the following conditions are observed. If the mortgagee acquires the property by foreclosure the mortgagee shall give notice to the Internal Revenue Service (IRS) of the foreclosure action. HUD will not object to an outstanding right of redemption in IRS if: (1) The Federal tax lien was perfected subsequent to the date of the mortgage lien, and (2) The mortgagee has bid an amount sufficient to make the mortgagee whole if the property is in fact redeemed by the IRS.

iii. Legal Restrictions on Conveyance (Free Assumability)

CMS must determine if there are any legal restrictions on conveyance in accordance with 24 CFR § 203.41.

iv. Closing in Compliance with Mortgage Approval

CMS must instruct the settlement agent to close the Mortgage in the same manner in which it was underwritten and approved.

CMS must ensure that the conditions listed on form HUD-92900-A and/or form HUD-92800.5B are satisfied.

v. Closing in CMS's Name

A Mortgage may close in the name of CMS or the sponsoring Mortgagee, the principal or the authorized agent. TPOs that are not FHA-approved Mortgagees may not close in their own names or perform any functions in FHA Connection (FHAC).

vi. Required Forms

CMS must use the forms and/or language prescribed by FHA in the legal documents used for closing the Mortgage.

vii. Certifications

(A) Borrower Certification

The Borrower must sign the certification on form HUD-92900-A and the Settlement Certification in accordance with the instructions provided on the form.

(B) Seller Certification

The seller must sign the certification on the Settlement Certification.

(C) Settlement Agent Certification

The Settlement agent must sign the certification on the Settlement Certification.

(D) Lender Certification

CMS must sign the certifications on the form HUD-92900-A in accordance with the instructions provided on the form.

viii. Projected Escrow

CMS must establish the escrow account in accordance with the regulatory requirements in 24 CFR § 203.550 and RESPA.

(A) Monthly Escrow Obligations

CMS must collect a monthly amount from the Borrower that will enable it to pay all escrow obligations in accordance with 24 CFR § 203.23. The escrow account must be sufficient to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;
- Mortgage Insurance Premiums (MIP);
- special assessments;
- flood insurance premiums if applicable; and
- any item that would create liens on the Property positioned ahead of the FHA-insured Mortgage, other than condominium or Homeowners' Association (HOA) fees.

(B) Repair Completion Escrow Requirement

CMS may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.

Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.

CMS must execute form HUD-92300, *Mortgagee's Assurance of Completion*, to indicate that the repair escrow has been established.

CMS must certify on form HUD-92051, *Compliance Inspection Report*, that the incomplete construction, alterations and repairs have been satisfactory completed.

Refer to [Escrow Holdback Disbursement Policy](#) and [Escrow Holdback Disbursement Procedure](#) for more information.

ix. Closing Costs and Fees

CMS must ensure that all fees charged to the Borrower comply with all applicable federal, state and local laws and disclosure requirements.

CMS is not permitted to use closing costs to help the Borrower meet the Minimum Required Investment (MRI).

(A) Collecting Customary and Reasonable Fees

CMS may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

CMS must ensure that the aggregate charges do not violate FHA's Tiered Pricing rules.

(B) Other Fees and Charges

CMS or sponsored TPO may charge the Borrower discount points, and lock-in and rate lock fees consistent with FHA and CFPB requirements.

(1) Origination Fees

CMS may charge an origination fee in accordance with RESPA.

(2) Discount Points

CMS may charge the Borrower discount points.

(3) Lock-in and Rate Lock Fees

CMS may charge the Borrower lock-in and rate lock fees only if CMS provides a lock-in or commitment agreement guaranteeing the interest rate and/or discount points for a period of not less than 15 Days prior to the anticipated closing.

(C) Qualified Mortgage

CMS must ensure the points and fees charged are in compliance with FHA's Qualified Mortgage Rule.

For FHA loans, the Higher Priced APR Threshold calculation is the FHA Standard, which is the Average Prime Offer Rate (APOR) plus 1.15% plus the ongoing monthly MI percent.

- CMS permits FHA credit qualifying streamline transactions that exceed the Higher Priced threshold.
- CMS does NOT permit FHA non-credit qualifying transactions that exceed the Higher Priced threshold. For these transactions, the rate or APR fees must be reduced to bring the APR below the threshold OR the loan may be converted to a credit qualifying transaction (Full Documentation or FHA Credit Qualifying).

(D) Tiered Pricing

CMS must ensure that the aggregate fees and charges do not violate the following Tiered Pricing rule.

(1) Definitions for Tiered Pricing

Area refers to a metropolitan statistical area as established by the Office of Management and Budget.

Mortgage Charge refers to the interest rate, discount points, origination fee, and any other amount charged to the Borrower for an insured Mortgage.

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed as a percentage of the initial principal of the Mortgage.

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage (2%) points from CMS's reasonable and customary rate for insured Mortgages for dwellings located within the area.

(2) Required Documentation

CMS must document that any variation in the Mortgage Charge Rate is based on actual variations in fees or costs to CMS to make the Mortgage.

(3) Standard

CMS may not make a Mortgage with a Mortgage Charge Rate that varies more than two percentage (2%) points from CMS's reasonable and customary rate for insured Mortgages for dwellings located within the area.

To determine whether a Mortgage exceeds the two percentage (2%) point variation limit, CMS must compare Mortgage Charge Rates for Mortgages of the same type, from the same area, and made on the same day or during some other reasonably limited period.

See Section 203(u) of the National Housing Act (12 U.S.C. § 1709(u)), 24 CFR § 200.12.

x. Disbursement Date

Disbursement Date refers to the date the proceeds of the Mortgage are made available to the Borrower.

The Disbursement Date must occur before the expiration of the FHA-issued Firm Commitment or DE approval and credit documents.

xi. Per Diem Interest and Interest Credits

CMS may collect per diem interest from the Disbursement Date to the date amortization begins.

Alternatively, CMS may begin amortization up to 7 Days prior to the Disbursement Date and provide a per diem interest credit. Any per diem interest credit may not be used to meet the Borrower's MRI.

Per diem interest must be computed using a factor of 1/365th of the annual rate.

xii. Signatures

CMSs must ensure that the Mortgage, Note, and all closing documents are signed by all required parties in accordance with the [Borrower Eligibility](#).

(A) Use of Power of Attorney at 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 *Uniform Residential Loan Application (URLA)*.

Unless required by applicable state law, 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:

- CMS, 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.

Refer to [CMS Power of Attorney Policy](#) for additional requirements

CMS 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](#).

b. Mortgage and Note

i. Definitions

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential Property, such as a deed of trust or security deed.

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a Mortgage.

ii. Standard

CMS must develop or obtain a separate Mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable Model Note and Mortgage.

CMS must ensure that the Mortgage and Note comply with all applicable state and local requirements for creating a recordable and enforceable Mortgage, and an enforceable Note.

At least one Borrower obligated on the Note must be on the title.

c. Disbursement of Mortgage Proceeds

i. Standard for Disbursement of Mortgage Proceeds

CMS must verify that Mortgage proceeds are disbursed in the proper amount to the Borrower and the seller, or in the case of a refinance transaction, to the debt holder.

At closing, the Mortgage proceeds disbursed by CMS and the cash from the Borrower must equal the total Acquisition Cost or refinance cost.

ii. Required Documentation for Disbursement of Mortgage Proceeds

CMS must obtain the final **acknowledged** Closing Disclosure or similar legal document from the settlement agent **signed by the Borrower**.

If the seller's Closing Disclosure or similar legal document is provided separately, CMS must obtain from the Closing Agent a copy of the final Closing Disclosure provided to the seller to keep in the case binder.

7. Programs and Products

a. 203(k) Rehabilitation Mortgage Insurance Program

CMS no longer offers 203(k) financing. This section is maintained for historical purposes.

i. Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance outstanding indebtedness on the Structure and the Real Property on which the Structure is located; or
- purchase and rehabilitate a Structure and purchase the Real Property on which the Structure is located.

Structure refers to a building that has a roof and walls, and stands permanently in one place that contains single or multiple housing units that are used for human habitation.

Mortgages to be insured under Section 203(k) must be processed and underwritten in accordance with the requirements in these guidelines, except where noted otherwise in this appendix.

(A) Types of 203(k) Rehabilitation Mortgages

There are two types of 203(k) rehabilitation Mortgages: Standard 203(k) and Limited 203(k), as described below. The guidance in this appendix is applicable to both Standard 203(k) and Limited 203(k) Mortgages unless noted otherwise.

(1) Standard 203(k)

The Standard 203(k) Mortgage may be used for remodeling and repairs. There is a minimum repair cost of \$5,000 and the use of a [203\(k\) Consultant](#) is required. The maximum repair cost is limited to 50% of the After Improved value.

(2) Limited 203(k)

The Limited 203(k) may only be used for [minor remodeling and non-structural repairs](#). The Limited 203(k) does not require the use of a 203(k) Consultant. There is a minimum repair cost of \$5000, and the total rehabilitation cost must not exceed \$35,000.

ii. Borrower Eligibility

The Borrower must meet the eligibility requirements found in the [Borrower Eligibility](#) section.

iii. Property Eligibility

The Property must be an existing Property that has been completed for at least one year prior to the case number assignment date. If CMS is unsure whether the Property has been completed for at least one year, CMS must request a copy of the Certificate of Occupancy (CO) or equivalent.

A Property that is not eligible for a 203(b) Mortgage due to health and safety or security issues may be eligible under 203(k) if the rehabilitation or repair work performed will correct such issues.

A Property with an existing 203(k) Mortgage is not eligible to be refinanced until all repairs are completed and the case has been electronically closed out.

The following property types may be financed:

- a one- to four-unit Single Family Structure;
- an individual condominium unit, meeting the following requirements:
 - the unit must be located in an FHA-approved Condominium Project and must comply with all other requirements for condominiums;
 - rehabilitation or improvements are limited to the interior of the unit, except for the installation of firewalls in the attic for the unit;
 - no more than five units per condominium association, or 25 percent (25%) of the total number of units, whichever is less, can undergo rehabilitation at any time; and
 - after rehabilitation is complete, the unit is located in a Structure containing no more than four units. For townhouse style condominiums, each townhouse is considered as one Structure, provided each unit is separated by a one and one-half hour firewall from foundation to roof;
- a Site Condominium unit;
- Manufactured Housing – Only available on the Limited 203(K) and repairs are limited to repair, replace, or install a continuous perimeter (skirting) required to enclose the foundation.
- a HUD Real Estate Owned (REO) Property:
 - the Property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum. Investor purchases of HUD REO Properties are not eligible for 203(k) financing.

iv. Application Requirements

CMS must provide the Borrower with the form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

v. Case Number Assignment Data Entry Requirements

In order to request a case number for a 203(k) Mortgage, CMS must enter the following information:

(A) 203(k) Program Type Indicator

CMS must select either Standard 203(k) or Limited 203(k) as the program type.

(B) Consultant Identification Number

CMS must enter the Consultant identification number into the "Consultant ID" field on the "Case Number Assignment" screen in FHAC. For a Limited 203(k) with no Consultant, CMS must enter "203KS" in the "Consultant ID" field.

(C) Automated Data Processing Code

CMS must enter the appropriate 203(k) Automated Data Processing (ADP) code.

(D) Construction Code

CMS must enter "Substantial Rehabilitation" in the drop-down menu labeled "Construction Code."

(E) Refinance Type

For a refinance transaction, CMS must select "Not Streamlined" in the dropdown menu labeled "All Refinances."

(F) Converting From a Non-203(k) to a 203(k) Mortgage

If CMS had originally requested the case number assignment for a non-203(k) Mortgage, CMS must update the existing case data in the “Case Number Assignment” screen, changing the ADP Code to a valid 203(k) ADP Code and the “Construction Code” to “Substantial Rehabilitation.”

vi. Standard 203(k) Transactions

(A) Standard 203(k) Eligible Improvements

The Standard 203(k) requires a minimum of \$5,000 in eligible improvements.

(1) Types of Improvements

Types of eligible improvements include, but are not limited to:

- converting a one-family Structure to a two-, three- or four-family Structure;
- decreasing an existing multi-unit Structure to a one- to four-family Structure;
- reconstructing a Structure that has been or will be demolished, provided the complete existing foundation system is not affected and will still be used;
- repairing, reconstructing or elevating an existing foundation where the Structure will not be demolished;
- purchasing an existing Structure on another site, moving it onto a new foundation and repairing/renovating it;
- making structural alterations such as the repair or replacement of structural damage, additions to the Structure, and finished attics and/or basements;
- rehabilitating, improving or constructing a garage;
- eliminating health and safety hazards that would violate HUD’s Minimum Property Requirements (MPR);
- installing or repairing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- making changes for aesthetic appeal;
- repairing or adding roofing, gutters and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven, and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors;
- making site improvements;
- landscaping;
- installing or repairing exterior decks, patios, and porches;
- constructing a windstorm shelter; and
- covering lead-based paint stabilization costs, if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule (24 CFR 200.805 and 200.810(c)) and the U.S. Environmental Protection Agency’s (EPA) Renovation, Repair, and Painting Rule (40 CFR 745, especially subparts E and Q).

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS). For a newly constructed addition to the existing Structure, the energy improvements must meet or exceed local codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD through a Federal Register notice.

(b) Specific Improvement Standards

Any addition of a Structure unit must be attached to the existing Structure. Site improvements, landscaping, patios, decks and terraces must increase the As-Si property value equal to the dollar amount spent on the improvements or be necessary to preserve the property from erosion.

(B) Standard 203(k) Ineligible Improvements/Repairs

The 203(k) mortgage proceeds **may not** be used to finance costs associated with the purchase or repair of any luxury item, any improvement that does not become a permanent part of the subject Property, or improvements that solely benefit commercial functions within the Property, including:

- recreational or luxury improvements, such as:
 - swimming pools (existing swimming pools can be repaired)
 - an exterior hot tub, spa, whirlpool bath, or sauna
 - barbecue pits, outdoor fireplaces or hearths
 - bath houses
 - tennis courts
 - satellite dishes
 - tree surgery (except when eliminating an endangerment to existing improvements)
 - photo murals
 - gazebos; or
- additions or alterations to support commercial use or to equip or refurbish space for commercial use.

(C) Standard 203(k) Establishing Repairs and Improvements

CMS must select an FHA-approved 203(k) Consultant from the FHA 203(k) Consultant Roster in FHAC. CMS must not use the services of a Consultant who has demonstrated previous poor performance based on reviews performed by CMS. The Consultant must inspect the Property and prepare the Work Write-Up and Cost Estimate.

The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each Work Item to be performed and the specifications for completion of the repair.

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.

Work Item refers to a specific repair or improvement that will be performed.

(D) Standard 203(k) Financeable Repair and Improvement Costs and Fees

The following repair and improvement costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- architectural/engineering professional fees;
- the 203(k) Consultant fee subject to the limits in the [203\(k\) Consultant Fee Schedule section](#);
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees;
- permits; and
- a Feasibility Study, when necessary to determine if the rehabilitation is feasible.

Any costs for Energy Efficient Mortgages and Solar Energy Systems must not be included in financeable repair and improvement costs.

For Borrowers performing their own work, CMS must include the costs for labor and materials for each Work Item to be completed by the Borrower under a Rehabilitation (Self-Help) Loan Agreement.

(E) Standard 203(k) Financeable Contingency Reserve

Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

CMS requires a minimum contingency reserve of 15%.

- may require increased contingency up to 20% depending on the scope of repairs, and the Consultant's recommendation
- any permissible foundation repair will require a 20% contingency

The Borrower may provide their own funds to establish the Contingency Reserves.

Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Standard 203(k) Financeable Mortgage Fees

CMS may finance the following fees and charges.

(1) Origination Fee

CMS may finance a portion of the Borrower-paid origination fee not to exceed the greater of \$350, or 1.5 percent (1.5%) of the total of the [Financeable Repair and Improvement Costs and Fees](#), and [Financeable Contingency Reserves](#). See Matrices for details on permissible origination fees, and fee schedule.

(2) Discount Points

CMS may finance a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of [Financeable Repair and Improvement Costs and Fees](#), and [Financeable Contingency Reserves](#).

(G) Standard 203(k) with Financed Reserves

A Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the Property cannot be occupied during rehabilitation.

CMS does not permit Financeable Mortgage Payment Reserves.

(H) Standard 203(k) Required Documentation and Review

(1) Review of Contractor Qualifications

Prior to closing, CMS must ensure that a qualified general or specialized contractor has been hired and, by contract, has agreed to complete the work described in the Work Write-Up for the amount of the Cost Estimate and within the allotted time frame. To determine whether the contractor is qualified, CMS must review the contractor's credentials, work experience and client references, and ensure that the contractor meets all jurisdictional licensing and bonding requirements.

(2) Consultant's Work Write-Up and Cost Estimate

CMS must obtain the Consultant's Work Write-Up and Cost Estimate for all Standard 203(k) Mortgages. CMS must ensure the Work Write-Up/Cost Estimate specifies the type of repair and cost of each Work Item. CMS must review the Work Write-Up and ensure that all health and safety issues identified were addressed before, including additional Work Items.

(3) Architectural Exhibits

CMS must obtain and review all applicable architectural exhibits as applicable.

(4) Written Proposal and Cost Estimates

CMS must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. CMS must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. It must be detailed, and specific.

(5) Sales Contract

CMS must ensure the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by CMS.

When the Borrower is financing a HUD REO Property, CMS must ensure that the first block on Line 4 of form HUD-9548, *Instructions and Sales Contract*, is checked, as well as the applicable block for 203(k).

vii. Limited 203(k) Transactions

(A) Limited 203(k) Eligible Improvements

The Limited 203(k) may only be used for minor remodeling and non-structural repairs. The total rehabilitation cost may not exceed \$35,000. The minimum repair amount is \$5000. The property must be habitable at closing, and borrower must occupy within 30 days.

The property must be habitable at the time of closing.

(1) Types of Improvements

Eligible improvement types include, but are not limited to:

- eliminating health and safety hazards that would violate HUD's MPR;
- repairing or replacing wells and/or septic systems;
- connecting to public water and sewage systems;
- repairing/replacing plumbing, heating, AC and electrical systems;
- making changes for improved functions and modernization;
- eliminating obsolescence;
- repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts;
- making energy conservation improvements;
- creating accessibility for persons with disabilities;
- installing or repairing fences, walkways, and driveways;
- installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer;
- repairing or removing an in-ground swimming pool;
- installing smoke detectors; installing, replacing or repairing exterior decks, patios, and porches (must increase the As-Is Property Value equal to the dollar amount spent on the improvements.; and
- covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule.

(2) Improvements Standards

(a) General Improvement Standards

All improvements to existing Structures must comply with HUD's MPR.

(B) Limited 203(k) Ineligible Improvements/Repairs

The Limited 203(k) mortgage proceeds **may not** be used to finance major rehabilitation or major remodeling. CMS considers a repair to be “major” when any of the following are applicable:

- the repair or improvements are expected to require more than sixty days to complete including anticipated weather related delays;
- the rehabilitation activities require more than two payments per specialized contractor;
- the required repairs arising from the appraisal:
 - necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
 - require plans or architectural exhibits;
- the repair prevents the Borrower from occupying the Property for more than 15 Days during the rehabilitation period; Additionally, the Limited 203(k) mortgage proceeds may not be used to finance the following specific repairs:
 - converting a one-family Structure to a two-, three- or four-family Structure;
 - decreasing an existing multi-unit Structure to a one- to four-family Structure;
 - reconstructing a Structure that has been or will be demolished;
 - repairing, reconstructing or elevating an existing foundation;
 - purchasing an existing Structure on another site and moving it onto a new foundation;
 - making structural alterations such as the repair of structural damage and New Construction, including room additions or moving a load-bearing wall;
 - landscaping and site improvements;
 - constructing a windstorm shelter;
 - any repair that will affect the use of the property; or
 - improvements that are not considered permanent.
- making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or
- making recreational or luxury improvements, such as:
 - new swimming pools;
 - an exterior hot tub, spa, whirlpool bath, or sauna;
 - barbecue pits, outdoor fireplaces or hearths;
 - bath houses;
 - tennis courts;
 - satellite dishes;
 - tree surgery (except when eliminating an endangerment to existing improvements);
 - photo murals; or
 - gazebos.

(C) Limited 203(k) Establishing Repair and Improvement Costs

The Borrower must submit a [work plan](#) to CMS and use one contractor to provide the Cost Estimate/bid and complete the required improvements and repairs. The contractors must be licensed and bonded if required by the local jurisdiction. The Borrower must provide the contractors’ credentials and bids to CMS.

CMS must review the contractors’ credentials, work experience and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements. CMS must examine the work plan and the contractors’ bids and determine if they fall within the usual and customary range for similar work.

CMS may require the Borrower to provide additional Cost Estimates if necessary.

(D) Limited 203(k) Financeable Repair and Improvement Costs and Fees

The following costs and fees may be financed:

- costs of construction, repairs and rehabilitation;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees; and
- permits.

Any costs for Solar Energy Systems must not be included in financeable repair and improvement costs.

(E) Limited 203(k) Financeable Contingency Reserves

CMS requires a minimum contingency reserve of 15%. The Borrower may provide their own funds to establish the Contingency Reserves. Where the Borrower has provided their own funds for Contingency Reserves, they must be noted under a separate category in the Repair Escrow Account.

(F) Limited 203(k) Financeable Mortgage Fees

CMS may include the following fees and charges in the rehabilitation Cost Estimates.

(1) Origination Fee

CMS may include a portion of the Borrower-paid origination fee not to exceed the greater of \$350, or 1.5 percent (1.5%) of the total of the [Financeable Repair and Improvement Costs and Fees](#) and [Financeable Contingency Reserves](#). See Matrices for details on permissible origination fees, and fee schedule.

(2) Discount Points

CMS may include a portion of the Borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by total of [Financeable Repair and Improvement Costs and Fees](#) and [Financeable Contingency Reserves](#).

(G) Limited 203(k) Ineligible Fees and Costs

The following fees and costs **may not** be financed under the Limited 203(k):

- Mortgage Payment Reserves
- architectural/engineering professional fees
- 203(k) Consultant fee
- a Feasibility Study

(H) Limited 203(k) Required Documentation

The following documentation is required for the Limited 203(k).

(1) Work Plan

CMS must obtain a work plan from the Borrower detailing the proposed repairs or improvements. The Borrower may develop the work plan themselves or engage an outside party, including a Contractor or a 203(k) Consultant, to assist.

There is no required format for the work plan.

(2) Written Proposal and Cost Estimates

CMS must obtain a written proposal and Cost Estimate from a contractor for each specialized repair or improvement. CMS must ensure that the selected contractor meets all jurisdictional licensing and bonding requirements. The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. It must be detailed, and specific.

(3) Sales Contract

CMS must obtain a copy of the sales contract and ensure that the sales contract includes a provision that the Borrower has applied for Section 203(k) financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by CMS.

When the Borrower is financing a HUD REO Property, CMS must ensure that the first block on Line 4 of the form HUD-9548, *Instructions for Sales Contract* is checked, as well as the applicable block for 203(k).

viii. Appraisals for Standard 203(k) and Limited 203(k)

(A) Establishing Value

CMS must establish both an Adjusted As-Is Value and an After Improved Value of the Property.

(1) Appraisal Reports

An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described below in cases of Property Flipping and refinance transactions, CMS is not required to obtain an as is appraisal and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, CMS must use it in establishing the Adjusted As-Is Value.

(2) Adjusted As-Is Value

CMS must establish the Adjusted As-Is Value as described below.

(a) Purchase Transactions

For purchase transactions, the Adjusted As-Is Value is the lesser of:

- the purchase price less any inducements to purchase; or
- the As-Is Property Value.

The As-Is Property Value refers to the as-is value as determined by an FHA Roster Appraiser, when an as-is appraisal is performed.

In the case of Property Flipping, CMS must obtain an **as-is appraisal** if needed to comply with the Property Flipping guidelines.

(b) Refinance Transactions

(i) Properties Acquired Greater Than or Equal to 12 Months Prior to the Case Assignment Date

CMS must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items exceeds the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees; and
- Financeable Contingency Reserves

When an appraisal is required, the Adjusted As-Is Value is the As-Is Property Value.

CMS has the option of using the existing debt or an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the following items does not exceed the After Improved Value:

- Financeable Repairs and Improvement Costs;
- Financeable Mortgage Fees; and
- Financeable Contingency Reserves

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;
- interest due on the existing Mortgage(s);
- Mortgage Insurance Premium (MIP) due on existing Mortgage;
- any prepayment penalties assessed;
- late charges; and
- escrow shortages.

(ii) Properties Acquired Less Than 12 Months Prior to the Case Assignment Date

For properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal **must** be obtained.

The Adjusted As-Is Value is the As-Is Property Value.

For properties acquired by the Borrower within 12 months of the case assignment date by inheritance or through a gift from a Family Member, CMS may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to 12 months prior to the case assignment date.

(3) After Improved Value

To establish the After Improved Value, CMS must obtain an appraisal of the Property subject to the repairs and improvements.

(B) Documents to be Provided to the Appraiser at Assignment

CMS must provide the Appraiser with a copy of the Consultant's Work Write-Up and Cost Estimate for a Standard 203(k), or the work plan, contractor's proposal and Cost Estimates for a Limited 203(k).

ix. Maximum Mortgage Amount for Purchase

The maximum mortgage amount that FHA will insure on a 203(k) purchase is the lesser of:

- the appropriate Loan-to-Value (LTV) ratio from the [Purchase Loan-to-Value Limits](#), multiplied by the lesser of:
 - the Adjusted As-Is Value, plus:
- Financeable Repair and Improvement Costs, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Mortgage Fees, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Contingency Reserves, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#); or
- 110 percent (110%) of the After Improved Value (100 percent for condominiums); or
- the [Nationwide Mortgage Limits](#).

For a HUD REO 203(k) purchase utilizing the Good Neighbor Next Door (GNND) or \$100 Down sales incentive, CMS must calculate the maximum mortgage amount that FHA will insure in accordance with [HUD REO Purchasing](#).

x. Maximum Mortgage Amount for Refinance

The maximum mortgage amount that FHA will insure on a 203(k) refinance is the lesser of:

1. the existing debt and fees associated with the new Mortgage, plus:

- Financeable Repair and Improvement Costs, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Mortgage Fees, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Contingency Reserves, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#); or

2. the appropriate LTV ratio below, multiplied by the lesser of:

- the Adjusted As-Is Value, plus:
 - Financeable Repair and Improvement Costs, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
 - Financeable Mortgage Fees, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
 - Financeable Contingency Reserves, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#); or
- 110 percent (110%) of the After Improved Value (100 percent for condominiums); or

3. the [Nationwide Mortgage Limits](#).

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(A) Loan-to-Value Ratios for Refinance

The table below describes the relationship between the [Borrower's Minimum Decision Credit Score](#) and the LTV ratio for which they are eligible.

If the Borrower's Minimum Decision Credit Score is:	Then the Borrower is:
at or above 580	eligible for maximum financing of 97.75%.
between 500 and 579	limited to a maximum LTV of 90%.

(B) Required Documentation

CMS must obtain the mortgage payoff statement for existing debt.

For properties acquired less than 12 months prior to the case assignment date, CMS must document the lowest Acquisition Cost in the past 12 months by obtaining a copy of the Settlement Statement or Closing Disclosure, as applicable or other legal documentation evidencing Acquisition Cost.

If improvements were made to the Property subsequent to the acquisition, CMS must document the associated cost of the improvements by obtaining the following:

- a contract for completion of work;
- materials cost and paid receipts; and
- permit costs.

xii. Mortgage Insurance Premium

CMS must comply with the MIP requirements found in the [MIP Chart](#).

For the purpose of calculating the LTV for application of the MIP, CMS must divide the Base Loan Amount by the After Improved Value.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



xiii. Underwriting

CMS must comply with the underwriting requirements found in these guidelines and the additional guidance provided below.

(A) Required Documentation Standard 203(k) and Limited 203(k)

(1) Identity-of-Interest Certification

Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates.

Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction.

The borrower may not have a relationship with any party to the transaction including contractor, loan officer, real estate agents, broker etc. nor may there be an identity of interest between any other parties involved in the transaction other than in Family Member purchases as described below.

Sales transactions between Family Members are permitted. CMS must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203(k) transaction. The Borrower and the 203(k) Consultant must each sign an Identity-of-Interest certification that is placed in the case binder.

If the Borrower selected a 203(k) Consultant to perform a Feasibility Study, CMS may select the same 203(k) Consultant for the project without creating an Identity of Interest.

(a) Borrower's Certification

The Borrower must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) and (Mortgagee), that I/We ___ do or ___ do not have an identity-of-interest with the seller. I/We do not have an identity-of-interest with the 203(k) Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, 203(k) Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company or investment club and I/We ___ will or ___ will not occupy the residence I/We are purchasing or refinancing."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Borrower's Signature Date

Co-borrower's Signature Date

(b) 203(k) Consultant's Certification

All 203(k) Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

"I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD's Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent, appraiser, plan reviewer, contractor, subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and that the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance."

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Consultant's Signature Date

(2) Repairs Noted by the Appraiser

When an appraisal report identifies the need for health and safety repairs that were not included in the Consultant's Work Write-Up, Borrower's work plan, or contractor's proposal, CMS must ensure the repairs are included in the Consultant's final Work Write-Up or the Borrower's final work plan.

(3) 203(k) Borrower's Acknowledgment (Form HUD-92700-A)

CMS must obtain an executed form HUD-92700-A, *203(k) Borrower's Acknowledgment*.

(4) Feasibility Study/Plan Review

If a Feasibility Study was performed to determine if the project is financially feasible, CMS must obtain a copy of the study.

(5) Borrower Contractor Agreement

CMS must obtain a written agreement between the Borrower and the general contractor, or if there is no general contractor, for each contractor. The contractor must agree in writing to complete the work for the amount of the Cost Estimate and within the allotted time frame.

(6) Contractor's Cost Estimate/Bid

CMS must obtain the final contractor's itemized estimate of the repairs and improvements to be completed for all Work Items.

(B) Required Documentation for Standard 203(k) Only

(1) Consultant Final Work Write-Up and Cost Estimate

CMS must obtain the final Work Write-Up and Cost Estimate from the Consultant. The final Work Write-Up must include all required repairs and improvements to meet HUD's Minimum Property Standards (MPS) and MPR (as applicable) and the Borrower's electives.

The Cost Estimate must state the nature and type of repair and cost for each Work Item, broken down by labor and materials. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

(2) Architectural Exhibits

CMS must obtain and review all required architectural exhibits included in the Consultant's final Work Write-Up.

(3) Consultant/Borrower Agreement

CMS must obtain a written agreement between the Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection," as detailed in the disclosure form HUD-92564-CN, *For Your Protection Get a Home Inspection*.

Please note: If the Consultant is a state-approved home inspector or a member of an accredited State or National Home Inspection Association, CMS will not require a Home Inspection to be completed.

xiv. Closing

(A) Standard

CMS must comply with requirements found in the [Closing](#) section and the additional guidance provided below.

There is only one closing that includes the rehabilitation funds. The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

(1) Establishing the Rehabilitation Escrow Account

(a) Standard 203(k)

CMS must establish an interest bearing rehabilitation escrow account to include, as applicable:

- [Standard 203\(k\) Financeable Repair and Improvement Costs and Fees](#);
- [Standard 203\(k\) Financeable Contingency Reserves](#);
- the Borrower's own funds for Contingency Reserves.

(b) Limited 203(k)

CMS must establish an interest bearing rehabilitation escrow account to include, as applicable:

- [Limited 203\(k\) Financeable Repair and Improvement Costs and Fees](#);
- [Limited 203\(k\) Financeable Contingency Reserves](#);
- the Borrower's own funds for Contingency Reserves.

(2) Initial Draw at Closing

CMS must document the amount and purpose of an initial draw at closing on the form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

The borrower and/or contractor must obtain all required permits prior to closing. If a required permit may not be obtained prior to closing, the contractor may not receive an initial draw at closing. Once the permit is obtained, the borrower and contractor may contact escrowaccountservicing@carringtonms.com to request and process the initial materials draw.

(a) Standard 203(k)

For Standard 203(k) transactions, CMS may disburse the following at closing:

- permit fees (the permit must be obtained before work commences).;
- **prepaid** architectural or engineering fees;
- **prepaid** Consultant fees;

For any Disbursements paid to the contractor, CMS must hold back 10 percent (10%) of the draw request in the Contingency Reserve.

(b) Limited 203(k)

For Limited 203(k) transactions, CMS may disburse permit fees at closing (the permit must be obtained before work commences).

CMS may disburse up to 50 percent (50%) of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document.

(B) Required Documentation

(1) Rehabilitation Loan Agreement

CMS and Borrower must execute the Rehabilitation Loan Agreement, which establishes the conditions under which CMS will disburse the Rehabilitation Escrow Account funds.

The Rehabilitation Loan Agreement is incorporated by reference and made a part of the security instrument.

(a) Standard 203(k) Rehabilitation Period

CMS must review the 203(k) Consultant's Work Write-Up to determine the time frame for completion of repairs not to exceed six months.

(b) Limited 203(k) Rehabilitation Period

CMS must consult the Borrower Contractor Agreement to determine the time frame for completion of repairs not to exceed sixty days.

(2) Security Instrument and Rehabilitation Loan Rider

If the Mortgage involves releases from the rehabilitation escrow account, the following language must be placed in the security instrument:

“Provisions pertaining to releases are contained in the Rehabilitation Loan Rider, which is attached to this mortgage and made a part hereof.”

The Rehabilitation Loan Rider is a required modification to a security instrument.

xv. Data Delivery

CMS must submit data to [FHAC](#), when the functionality becomes available, for:

- 203(k) Program Type
- As-Is Property Value;
- Adjusted As-Is Value;
- After Improved Value;
- existing debt on the Property for a refinance;
- the lowest Acquisition Cost of the Property in the past 12 months, plus any documented improvements made subsequent to the purchase (for refinance);
- Financeable Repair and Improvement Costs, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Contingency Reserves, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- Financeable Mortgage Fees, for [Standard 203\(k\)](#) or [Limited 203\(k\)](#);
- cost of EEM or solar energy systems improvements; and
- principal balance of secondary financing provided by private individuals and other organizations.

For applications to be endorsed prior to the availability of data delivery functionality in FHAC, CMS must detail the data delivery requirements shown above on form HUD-92900-LT, or include the applicable 203(k) Maximum Mortgage Calculation Worksheet.

b. Disasters and 203(h) Mortgage Insurance for Disaster Victims

i. Definition

Section 203(h) of the National Housing Act authorizes FHA to insure Mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family Property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) Mortgages provided below, this specific guidance controls.

ii. Eligibility Requirements

(A) Borrower Eligibility

(1) Application Deadline

The FHA case number must be assigned within one year of the date the PDMDA is declared, unless an additional period of eligibility is provided.

(2) Principal Residence

The mortgaged Property must be the Borrower's Principal Residence.

(3) Credit Score

The Borrower must have a minimum credit score of 500.

(B) Property Eligibility

The previous residence (rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency ([FEMA](#)).

The purchased or reconstructed Property must be a Single Family Property or a unit in an FHA-Approved Condominium Project.

(C) Minimum Required Investment/Maximum Loan-to-Value

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100 percent (100%) of the Adjusted Value. If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

(D) Underwriting

CMS should be as flexible as prudent decision making permits.

CMS is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, CMS may use alternative documentation as outlined below. Where specific requirements are not provided below, CMS may use alternative documentation that is reasonable and prudent to rely upon in underwriting a Mortgage.

(1) Credit

For Borrowers with derogatory credit, CMS may consider the Borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

(2) Income

If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

CMS may also include short-term employment obtained following the disaster in the calculation of Effective Income.

(3) Liabilities

When a Borrower is purchasing a new house, CMS may exclude the Rental Housing Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities.

(4) Assets

If traditional asset documentation is not available, CMS may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the Mortgage.

(5) Rental Payment History

CMS may disregard any late payments on a previous obligation on a Property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not delinquent on their Rent at the time of the disaster.

VOR or cancelled rent checks required.

iii. Eligibility Documentation Requirements

CMS must document and verify that the Borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage of the previous house must accompany the mortgage application. If purchasing a new house, the house need not be located in the area where the previous house was located.

iv. Refinancing Policy

Refinancing is permitted in conjunction with rehabilitation.

v. Using Section 203(k) with 203(h) for Rehabilitation

Damaged residences located in a PDMDA are eligible for Section 203(k) mortgage insurance regardless of the age of the Property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k). All other Section 203(k) policy must be followed.

c. Refinances

i. Overview

(A) Definition

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.

(B) Maximum Mortgage Amounts / Adjusted Values

A Mortgage that is to be insured by FHA cannot exceed the [Nationwide Mortgage Limits](#), the nationwide area mortgage limit, or the maximum Loan-to-Value (LTV) ratio. The maximum LTV ratios vary depending upon the type of Borrower, type of transaction, program type, and stage of construction.

Under most programs, the maximum Mortgage is the lesser of the [Nationwide Mortgage Limit](#) for the area, or a percentage of the Adjusted Value. For refinance transactions:

- 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.

(C) Types of Refinances

Seasoning Requirements:

The following GNMA seasoning requirements apply for all Streamlines and Cash-Out Refinances:

- At least six (6) full monthly payments must have been made, AND
- 210 Days must have elapsed between the first payment DUE date of the original loan and the first payment DUE date of the new loan

FHA Streamlines have additional HUD seasoning requirements based on the date of FHA Case Number Assignment:

- The borrower must have made at least six (6) payments on the FHA insured mortgage 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 (6) full months must have passed since the first payment due date of the refinanced mortgage, and
- 210 Days must have passed from the closing date of the original mortgage that is being refinanced.
- If the loan has been assumed, the borrower must have made six (6) payments since the assumption.

Note: FHA Simple Refinance and Full Document Rate and Term Refinance transactions are exempt from the seasoning requirements.

(1) 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. Seasoning requirements apply. See above.

(2) 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:

(a) 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. Full Documentation Rate and Term Refinance transactions are exempt from the seasoning requirements.

(b) 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. Simple Refinance transactions are exempt from the seasoning requirements.

(c) Streamline Refinance

Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring limited Borrower credit documentation and underwriting. Seasoning requirements apply. See above.

There are two different streamline options available.

(i) Credit Qualifying

CMS must perform a credit and capacity analysis of the Borrower, but no appraisal is required.

(ii) Non-Credit Qualifying

CMS does not need to perform credit or capacity analysis or obtain an appraisal.

See [Tax Liens](#) for CMS to CMS Streamline requirements for IRS lien subordinations.

(3) Refinances for the Purpose of Rehabilitation or Repair

A Borrower may refinance existing debts and obtain additional financing for purposes of rehabilitation and repair. Refer to [203\(k\) Rehabilitation Mortgage Insurance Program](#) for guidelines for refinances under FHA's Section 203(k) program.

ii. General Eligibility

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

FHA-to-FHA refinances may be used with any refinance type. CMS 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.

(B) General Borrower Eligibility

At least one Borrower on the refinancing Mortgage must hold title to the Property being refinanced, at the time of application, and prior to case number assignment.

(C) General Property Eligibility

For a transaction involving a Manufactured Home to be considered a refinance, the Manufactured Home must have been permanently erected on a site for more than twelve months prior to case number assignment.

(D) General Mortgage Eligibility

(1) Standard

CMS must not approve any Mortgage that refinances or otherwise replaces a Mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state.

(2) Required Documentation

If the Mortgage to be insured is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a Mortgage, CMS must obtain a certification from the Borrower stating the Mortgage being refinanced was not subject to eminent domain condemnation or seizure.

iii. Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted with refinance transactions.

iv. Upfront Mortgage Insurance Premium Refunds

If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within three (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 table below:

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

v. Cash-Out Refinances

(A) Borrower Eligibility

Nonprofit agencies, state and local government agencies and Instrumentalities of Government are not eligible for cash-out refinances. Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance.

(1) Occupancy Requirements

(a) Standard

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 at least one Borrower as their Principal Residence for the 12 months prior to the date of case number assignment. If the property was owned prior to closing by a limited liability corporation (LLC) that is 100% owned by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's 12 month ownership requirement. Only one Borrower is required to be a title-holder.

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.

(b) Required Documentation

CMS must review the Borrower's employment documentation or obtain utility bills to evidence that at least one of the Borrowers has occupied the subject Property as their Principal Residence for the 12 months prior to case number assignment.

(2) Payment History Requirements

(a) Standard

For both Mortgages underwritten through TOTAL Scorecard and manually underwritten Mortgages, CMS 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 must have been paid within the month due for the month prior to mortgage Disbursement.

Properties with Mortgages must have a minimum of six (6) months of Mortgage Payments. Properties owned free and clear may be refinanced as cash-out transactions.

A Borrower who was granted Mortgage Payment Forbearance must have:

- Completed the Forbearance Plan on the subject property; and
- Made at least twelve (12) consecutive mortgage payments within the month due on the mortgage since completing the Forbearance Plan.

(b) Required Documentation

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, CMS 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.

Where a mortgage reflects payments under a Modification or Forbearance Plan within the 12 months prior to case number assignment, CMS 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.

(B) Maximum Mortgage Amounts

(1) Standard

(a) Maximum Loan-to-Value

The maximum LTV is **80 percent** of the Adjusted Value.

(b) Maximum Combined Loan-to-Value

The maximum CLTV is **80 percent** of the Adjusted Value.

(c) 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.

(2) Required Documentation

CMS must obtain the payoff statement for all existing Mortgages.

vi. No Cash-Out Refinances

(A) Rate and Term

(1) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Rate and Term refinance transactions are only permitted on owner occupied Principal Residences.

(ii) Required Documentation

CMS 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.

(b) Payment History Requirements (Manually Underwritten)

(i) Standard

For all mortgages on all properties with less than six (6) 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 (6) months history, the Borrower must have made all Mortgage Payments within the month due for the six (6) months prior to case number assignment and have no more than one 30-Day late payment for the previous six (6) 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 for the month prior to mortgage Disbursement.

Please note: There may be no late payments within 12 months of the case number assignment for a cash-out transaction. Refer to Cash-Out Refinances [Payment History Requirements](#) for additional information.

(ii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, CMS 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, CMS 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.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(2) Maximum Mortgage Amount

(a) Maximum Loan-to-Value Ratio

The maximum LTV for a Rate and Term refinance is:

For properties acquired 12 months or more at case number assignment:

- **97.75 percent** for Principal Residences that have been owner-occupied for previous 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

For properties acquired less than 12 months at case number assignment:

- **97.75 percent** if subject has been owner-occupied for the entire time since acquisition. Letter of Explanation (LOE) required addressing borrower immediately began occupying the property after acquiring it, and file documentation dated after the acquisition date must support the subject property as borrower's address. Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.
- **85.00 percent** if subject has not been owner-occupied for the entire time since acquisition or if file documentation dated after the acquisition date does not support borrower immediately took occupancy.

(b) Calculating Maximum Mortgage Amount

(i) Standard

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);
 - 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.

Short Payoffs

CMS 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. CMS 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.

Refinancing to pay off a recorded land contract must be done as a rate/term refinance transaction. Unrecorded land contracts are done as a purchase transaction.

CMS must obtain a payoff statement to document the outstanding balance on the recorded land contract. The land contract itself should not be used as the payoff.

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, CMS may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement. CMS must submit the Mortgage for endorsement at the reduced principle amount.

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.

(ii) Required Documentation

CMS must obtain the payoff statement on all existing Mortgages.

(c) Maximum Combined Loan-to-Value Ratio

The maximum **CLTV** ratio for a Rate and Term refinance is **97.75 percent**.

For open-end line of credit CMS must utilize the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.

(B) Simple Refinance

(1) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Simple Refinance is only permissible for owner-occupied Principal Residences. All loan amounts must be submitted through Total Score Card. Refer to [AUS Section](#) for manual underwrite requirements.

(ii) Required Documentation

CMS must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the Property as their Principal Residence.

(b) Payment History Requirements

(i) Standard

For all mortgages on all properties with less than six (6) 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 (6) 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 (6) 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 for the month prior to mortgage Disbursement.

(ii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, CMS 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.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(2) Maximum Mortgage Amount

(a) Maximum LTV

The maximum LTV ratio for a Simple Refinance is:

- **97.75 percent** for Principal Residences

(b) Maximum CLTV

The maximum CLTV for a Simple Refinance is:

- **97.75 percent** for Principal Residences

(3) Calculating Maximum Mortgage Amount for Simple Refinance Transactions

(a) Standard

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).

(c) 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, CMS may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

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.

(d) Required Documentation

CMS must obtain the payoff statement for the existing Mortgage being refinanced.

(4) Upfront and Annual Mortgage Insurance Premium

See [MIP Chart](#) for assessing upfront and annual MIP.

(C) Streamline Refinances

Streamline Refinance may be used when the proceeds of the Mortgage are used to extinguish an existing FHA-insured first mortgage lien. CMS must manually underwrite all Streamline Refinances in accordance with the guidance provided in this section.

(1) Streamline Refinance Exemptions

(a) Non-Credit Qualifying Exemptions

Unless otherwise stated in this section, the following sections of these guidelines do not apply to non-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)

(b) Credit Qualifying Exemptions

The following sections of these guidelines do not apply to credit qualifying Streamline Refinances:

- 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

(2) Borrower Eligibility

(a) Occupancy Requirements

(i) Standard

Streamline Refinances may be used for Principal Residences or non-owner occupied Properties.

(ii) Required Documentation

CMS must obtain one utility bill to evidence that the Borrower currently occupies the Property as their Principal Residence. Acceptable utility bills include: electricity, gas, cable, water, land line phone, or internet service provider. The utility bills must be:

- Listed in the borrower's name
- Dated within 60 days of the loan application (multiple months of the same bill is not acceptable or required)
- Associated with the Property as the service address AND mailing address

CMS permits verification of the borrower's occupancy using employer documentation. CMS must obtain a written VOE with the borrower's current address listed in the comment section or a letter from the employer on the employer's letterhead. Note: if there is any reference to the borrower's income on the VOE or employer letter, the loan must be underwritten as credit qualifying.

CMS must process the Streamline Refinance as a non-owner occupied Property if CMS cannot obtain any utility bills in the borrower's name to evidence that the Borrower occupies the Property as a Principal Residence.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(b) Payment History Requirements

(i) Standard

The Borrower must have made all Mortgage Payments within the month due for the six (6) months prior to case number assignment and have no more than one 30-Day late payment for the previous six (6) months for all mortgages.

The Borrower must have made the payments for all mortgages within the month due for the month prior to mortgage Disbursement.

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.

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.

(ii) Mortgage Payment History

Credit Qualifying Streamline and Non-Credit Qualifying Streamline loans:

- Must be 0X30 for the most recent 6 months prior to Case Number Assignment.
- May be no more than 1X30 in months 7 through 12 prior to Case Number Assignment.
- Must be 0X30 after Case Number Assignment through closing.

Example:

Case Number Assignment date: 11/21/17

Funding date: 3/29/18

Mortgage payment history From 5/2017 to 11/2017 recent 6 months prior to Case Number Assignment) Must be 0 x 30 (this is the most

Mortgage payment history From 4/2017 to 11/2016 months 7 through 12 prior to Case Number Assignment) No more than 1 x 30 (this is

Mortgage payment history From 12/2017-2/2018 payments after Case Number Assignment) Must be 0X30 (mortgage

(iii) Required Documentation

If the Mortgage on the subject Property is not reported in the Borrower's credit report, CMS must obtain a verification of Mortgage to evidence payment history for the previous 12 months. Servicing system screen prints (for example: FISERV) are not acceptable to use to support the mortgage payment history. Either a credit report and/or credit supplement is required.

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.

(3) Non-owner Occupied Properties

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

(4) General Information Applicable to All Streamline Refinances

(a) 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.

(b) Use of TOTAL Mortgage Scorecard on Streamline Refinances

CMS must manually underwrite all Streamline Refinances. CMS may score the Mortgage through TOTAL Mortgage Scorecard but the findings are invalid.

(c) Net Tangible Benefit of Streamline Refinances

A Net Tangible Benefit (NTB) is the financial benefit to the Borrower that results from a Streamline Refinance. Only one of the three NTB tests is required to be met.

There are three types of Net Tangible Benefit:

- Combined Rate Reduction
- Changing from an Adjustable Rate Mortgage (ARM) to a Fixed Rate Mortgage (ARM to a Fixed)
- A Reduction in Term meeting the specific requirements

Note: For the streamline refinance of a restructured loan that has a Servicemember's Civil Relief Act (SCRA) reduced interest rate, CMS must use the SCRA reduced interest rate to calculate the NTB for the Borrower.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(i) Definitions

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.

Reduction in Term refers to the reduction of the remaining amortization period of the existing Mortgage

(ii) **Standard for Refinances without a Term Reduction or with a Term Reduction of Less Than Three Years**

CMS must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions without a reduction in term of **three years or more**.

1. Combined Rate Reduction

2. ARM to Fixed Rate NTB

From	To		
	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.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(iii) Standard for Refinances with a Term Reduction of Three Years or More

CMS must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions with a reduction in term of three years or more.

- The remaining amortization period of the existing Mortgage must be reduced by at least **3 years**; and The combined principal, interest, and MIP payment of the new Mortgage must not exceed the combined principal, interest, and MIP payment of the refinanced Mortgage by more than \$50; and
- The combined interest rate must:
 - Decrease when refinancing from a fixed rate Mortgage to a new fixed rate mortgage, or
 - Not increase by more than 2 percentage points when refinancing from an ARM to a new fixed rate mortgage

From	To		
	Fixed Rate New Combined Rate	One-Year ARM New Combined Rate	Hybrid ARM New Combined Rate
Fixed Rate	Below the prior Combined Rate and no more than a \$50 increase in the monthly payment amount.	N/A	N/A
Any ARM With Less Than 15 Months to Next Payment Change Date	No more than 2 percentage points above the prior Combined Rate and no more than a \$50 increase in the monthly payment amount.	N/A	N/A
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 and no more than a \$50 increase in the monthly payment amount.	N/A	N/A

(d) HUD Employee Mortgage

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

(e) Reviewing Limited Denial Participation and SAM Exclusion Lists

CMS must check the HUD Limited Denial of Participation (LDP) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

CMS must check the [System for Award Management \(SAM\)](#), and must follow appropriate procedures defined by that system to confirm eligibility for participation.

(f) Borrower Additions to Title

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

(g) Borrower Credit Reports

CMS requires a mortgage only credit report that reflects all mortgages on all properties owned by the borrower on the non-credit qualifying Streamline Refinance.

CMS must obtain a complete credit report for the credit qualifying Streamline Refinance.

(h) Funds to Close

If the funds to close exceed the total Mortgage Payment (PITI) of the new Mortgage, CMS must verify the full amount of the Borrower's funds to close in accordance with [Sources of Funds](#).

(i) 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.

(j) Maximum Mortgage Calculation for Streamline Refinances

(i) Standard

For owner-occupied Principal 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

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

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, CMS may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

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.

(ii) Required Documentation

CMS must obtain the payoff statement on the existing Mortgage.

(k) Maximum CLTV Ratio and Subordinate Financing

Subordinate Financing is any financing other than the first Mortgage that creates a lien against the Property. Any such financing that does create a lien against the Property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt.

- Notes and Deeds are not required for existing subordinate financing. The subordination agreement is always required. This applies for all FHA Refinances. **Please note:** the Secondary Financing amount should not be listed on the HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary (LT).
- Notes and Deeds are required for new subordinate financing, no exceptions.

Existing Subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. New Subordinate financing is permitted only where the proceeds of the subordinate financing are used to:

- reduce the principal amount of the existing FHA-insured Mortgage, or
- finance the origination fees, other closing costs, or discount points associated with the refinance

There is no maximum CLTV. CMS must contact the National Servicing Center for processing of any HUD held lien subordination.

(l) Appraisal and Inspection Requirements on Streamline Refinances

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

(m) Assessing Upfront and Annual MIP

See [MIP Chart](#) 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.

(n) IRS Lien Subordinations

See [Tax Liens](#) for CMS to CMS Streamline requirements for IRS lien subordinations.

(5) Streamline Refinance Non-Credit Qualifying

(a) 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.

(b) Special Documentation and Procedures for Non-Credit Qualifying Streamline Refinances

CMS does not permit the disclosure of income on the Uniform Residential Loan Application (URLA) in Section 1 or in the REO schedule of Section 3. Disclosure of income will require the loan to be processed as a Credit Qualifying Streamline.

Income documentation may not be provided. Inclusion of any income documentation will require the loan to be processed as a Credit Qualifying Streamline.

(6) Streamline Refinance Credit Qualifying

(a) Borrower Eligibility

At least one Borrower from the existing Mortgage must remain as a Borrower on the new Mortgage.

(b) 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.

d. New Construction

i. Definitions

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One (1) Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent (100%) completion with no Certificate of Occupancy (CO) or equivalent.
- Existing for Less than One Year refers to a Property that is 100 percent (100%) complete and has been completed less than one year from the date of the issuance of the Certificate of Occupancy (CO) or equivalent. The Property must have never been occupied.

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.

ii. Eligible Property Types

The following property types are eligible for New Construction financing:

- Site Built Housing (one- to four-units)
- Condominium units in Approved Projects or Legal Phases
- Manufactured Housing

iii. Required Inspections for New Construction Financing

(A) Site Built Housing and Condominium Units (By Construction Status at Time of Appraisal)

CMS must obtain:

(1) Proposed Construction

CMS must obtain one of the following:

- copies of the building permit (or equivalent) and Certificate of Occupancy (CO or equivalent); or
- three inspections (footing, framing and final) performed by the local authority with jurisdiction over the Property or an International Code Council (ICC) certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (ICC RCI/CI panel may be accessed at: <https://www.iccsafe.org/search-for-certified-professionals/>) on form HUD-92051, *Compliance Inspection Report* (for Modular Housing, footing and final only);
- in the absence of such ICC certified RCI or CI, CMS may obtain three inspections (footing, framing and final) performed by a disinterested third party, who is a registered architect, a structural engineer, **or a qualified trades person or contractor**, and has met the licensing and bonding requirements of the state in which the Property is located.

(2) Under-Construction

CMS must obtain:

- copies of the building permit (or equivalent) and Certificate of Occupancy (CO or equivalent); or
- a final inspection issued by the local authority with jurisdiction over the Property or by an International Code Council (ICC) certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (ICC RCI/CI panel may be accessed at: <https://www.iccsafe.org/search-for-certified-professionals/>); or
- in the absence of such ICC certified RCI or CI, CMS may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(3) Existing for Less than One Year (100 Percent Complete)

CMS must obtain:

- a copy of the Certificate of Occupancy (CO) or equivalent; or
- a final inspection issued by the local authority with jurisdiction over the Property or by an International Code Council (ICC) Residential Combination Inspector (RCI) or Combination Inspector (CI) (ICC RCI/CI panel may be accessed at: <https://www.iccsafe.org/search-for-certified-professionals/>); or
- in the absence of such ICC certified RCI or CI, CMS may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(B) Manufactured Housing (By Construction Status at Time of Appraisal) Inspection Requirements for Maximum Financing

CMS must obtain:

(1) Proposed Construction

CMS does not permit Proposed Construction Manufactured Housing

(2) Under Construction

- copies of the building permit, (or equivalent) and CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(3) Existing for Less than One Year (100 Percent Complete)

- a copy of the Certificate of Occupancy (CO) or equivalent; or
- a final inspection performed by the local authority with jurisdiction over the Property or an International Code Council (ICC) certified Residential Combination Inspector (RCI) or Combination Inspector (CI). The ICC RCI/CI panel may be accessed at: <https://www.iccsafe.org/search-for-certified-professionals/>); or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, CMS may obtain a final inspection performed by a disinterested third party, who is a registered architect, a structural engineer, or a qualified trades person or

contractor, and has met the licensing and bonding requirements of the state in which the Property is located.

(C) Units in Condominium Project or Legal Phase (Existing Less Than One Year)

CMS must obtain a CO or its equivalent.

iv. Required Documentation for New Construction Financing

CMS must obtain and include the following documents in the case binder:

- Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*;
- Form [HUD-92544](#), *Warranty of Completion of Construction*;
- Required inspections, as applicable;
- inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect, structural engineer, **or a qualified trades person or contractor** must be reported on form HUD-92051, *Compliance Inspection Report*, or on an appropriate state-sanctioned inspection form;
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "[Termite Treatment Exception Areas](#)" list:
 - Form [HUD-NPMA-99-A](#), *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. CMS must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
 - Form [HUD-NPMA-99-B](#), *New Construction Subterranean Termite Service Record*, is required when the New Construction Property is treated with one of the following: Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide, or Physical Barrier System is installed, as reflected on the [HUD-NPMA-99-A](#). CMS must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.
- when a third party, who is a registered architect, structural engineer, **or a qualified trades person or contractor** is relied upon for required inspections due to the absence of an ICC certified RCI or CI, include certification from such inspector that they are licensed and bonded under applicable state and local laws **to perform the type of inspection completed**.

vi. Documents to be Provided to Appraiser at Assignment

CMS must provide the Appraiser with a fully executed form HUD-92541, signed and dated no more than 30 Days prior to the date the appraisal was ordered.

For Properties 90 percent (90%) completed or less, CMS must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to determine the size and level of finish of the house they are appraising.

For Properties greater than 90 percent (90%) but less than 100 percent (100%) completed, CMS must provide the Appraiser with a list of components to be installed or completed after the date of inspection.

vii. Property Considerations

New Construction must meet HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

viii. Mortgagee Review of Appraisal

(A) Site Considerations

(1) Environmental

CMS must require corrective work to mitigate any condition that arises during construction that may affect the health and safety of the occupants, the Property's ability to serve as collateral, or the structural soundness of the improvements.

(2) Operating Oil or Gas Wells

If a proposed or newly constructed dwelling is located within 75 feet of an operating oil or gas well, CMS must reject the Property unless mitigation measures are completed.

(3) Slush Pits

If a Property is Proposed Construction near an active or abandoned Slush Pit, the Appraiser must require a survey to locate the pit. CMS is to assess any impact on the subject Property.

(4) Special Airport Hazards

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

A proposed or newly constructed Property located in Accident Potential Zone I at military airfields may be eligible for FHA mortgage insurance provided that CMS determines that the Property complies with Department of Defense guidelines.

(5) Flood Hazard Areas

If any portion of the property improvements (the dwelling and related Structures/equipment essential to the value of the Property and subject to flood damage) is located within a Special Flood Hazard Area (SFHA), CMS must reject the Property, unless:

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the Property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- CMS obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33), that documents that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the Property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria. CMS must ensure that the flood elevation certificate is prepared by a licensed engineer or surveyor and completed based on finished construction.

CMS must include the LOMA, LOMR, or flood elevation certificate with the case when it is submitted for endorsement.

CMS must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the Property remains located within an SFHA.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



(6) Individual Water Supply Systems (Wells)

CMS must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or sub-arctic regions.

(a) Requirements for Well Water Testing

A well water test is required for, but not limited to, Properties:

- that are newly constructed;
- where an Appraiser has reported deficiencies with a well or the well water;
- where water is reported to be unsafe or known to be unsafe;
- located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; or
- where the distance between the well and septic system is less than 100 feet.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

(b) Required Documentation

The Mortgagee must submit a valid water test from the local health authority or qualified lab.

(7) Shared Well

A Shared Well is permitted only if CMS obtains evidence that:

- it is not feasible to serve the housing by an acceptable public or Community Water System; and
- the housing is located in an area other than in an area where local officials have certified that installation of public or adequate Community Water Systems and sewer systems are economically feasible.

(B) Sales Comparison Approach: Comparable Selection

For Properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

ix. Completion of Construction

Regardless of the inspection process used, CMS must certify on form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*, that the Property is 100 percent (100%) complete and meets HUD’s MPR and MPS.

e. Building on Own Land

i. Definition

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.

ii. Eligibility

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.

iii. Calculating the Maximum Mortgage Amount

CMS 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.

For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs.

iv. Minimum Required Investment

(A) Standard

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.

(B) Required Documentation

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, CMS must verify that the donor was not a prohibited source.

CMS must obtain standard gift documentation for any gift of land.

v. 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. CMS must obtain an itemization of the extras and expenses and the cost of each item.

vi. Required Documentation

CMS must comply with general [New Construction](#) requirements.

CMS must document the date of purchase of the land by obtaining the Closing Disclosure or similar legal document.

CMS 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, expenses, and cost of each item.

f. HUD Real Estate Owned Purchasing

i. Definition

(A) HUD REO Property

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 CMS.

(B) Insured HUD REO Property Purchase

An Insured HUD REO Property Purchase refers to the purchase of a HUD REO Property by a Borrower with a new FHA-insured Mortgage.

(C) Insured HUD REO Property Purchase Programs

(1) 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.

(2) 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.

(3) 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).

(D) Special Sales Incentives

(1) Good Neighbor Next Door

CMS does not provide financing for properties with this incentive.

(2) \$100 Down

The \$100 Down sales incentive permits a Borrower to purchase a HUD REO Property with FHA-insured financing with a minimum down-payment of \$100.

\$100 Down purchases may be processed as Section 203(b), or Section 203(b) with Repair Escrow.

ii. Sales Contract and Required Supporting Documentation

(A) General

CMS 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.

(B) 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 down-payment, and the mortgage amount.

Regardless of the Insured HUD REO Property Purchase Program entered on Line 4 of form HUD-9548, CMS 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.

(C) \$100 Down

Where the Borrower has been approved for the \$100 Down sales incentive, the amount of the cash down-payment specified on Line 4 will be \$100.

(D) 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).

iii. Ordering Case Numbers

(A) Section 203(b) and Section 203(b) With Repair Escrow

CMS must order case numbers for Insured HUD REO Property Purchases in accordance with [Ordering Case Numbers](#).

CMS 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.

(B) Section 203(k)

CMS must order case numbers for Insured HUD REO Property Purchases in accordance with [Case Number Assignment Data Entry Requirements](#).

CMS 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.

iv. Appraisals

(A) Ordering Appraisals

The appraisal must be requested as a HUD REO appraisal

(B) Appraisal Review and Property Acceptability

CMS must review the appraisal and property conditions in accordance with the requirements of [Underwriting the Property](#).

v. Occupancy Types

(A) Principal Residence

An Owner-Occupant Borrower may purchase HUD REO Properties using Section 203(b), Section 203(b) with Repair Escrow, and Section 203(k).

vi. Maximum Mortgage Amounts

(A) Section 203(b)

CMS 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) from this section, subject to LTV Limitations Based on Borrower’s Credit Score.

(1) Owner-Occupant Borrower

The maximum LTV is **96.5 percent**.

(B) Section 203(b) With Repair Escrow

CMS must initially calculate the mortgage amount in accordance with the requirements for Section 203(b) above. CMS 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 (10%) contingency. The total escrow amount, including the 10 percent (10%) contingency, must not exceed \$11,000.

(C) \$100 Down

(1) Section 203(b)

CMS must calculate the maximum mortgage amount by subtracting \$100 from the Adjusted Value.

(2) Section 203(b) With Repair Escrow

CMS must calculate the maximum mortgage amount by subtracting \$100 from the sum of the Adjusted Value plus 110 percent (110%) of the estimated cost of repairs, not to exceed \$5,500.

(D) Section 203(k)

(1) Owner-Occupant Borrower

CMS must calculate the maximum mortgage amount in accordance with the requirements of Section 203(k) Maximum Mortgage Amounts for Purchases.

vii. Additional Section 203(b) With Repair Escrow Requirements

(A) FHAC Insuring Application

CMS must check "Yes" in the Escrow Data field. CMS must enter the amount of the escrow, including the contingency, in the HUD REO Repair Amount field.

(B) Required Documentation

CMS must comply with the [Repair Completion Escrow Requirement](#).

vii. Additional \$100 Down Requirements for FHAC Insuring Application

In the \$100 REO Down-payment Program field, CMS must enter "Yes."

g. Condominiums

The Federal Housing Administration (FHA) will insure Mortgages on Condominium Units (Units) in Approved Condominium Projects that have been approved under the HUD Review and Approval Process (HRAP) or Direct Endorsement Lender Review and Approval Process (DELRAP). In addition, FHA will insure Mortgages on Units approved in accordance with the [Single-Unit Approval](#) section or that meet the definition and standards for a [Site Condominium](#).

i. Units Not Requiring Approval

(A) Real Estate Owned Mortgages

HUD Real Estate Owned (REO) Mortgage transactions do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, CMS must enter the FHA Condo ID when the FHA case number is requested.

(B) Streamline Refinances

Streamline Refinances do not require Condominium Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, CMS must enter the FHA Condo ID when the FHA case number is requested.

ii. Requirements for Units in approved Condominium Projects

CMS must verify the following requirements for individual Units located in an Approved Condominium Project or Legal Phase.

(A) Condominium Project Approval Status

CMS must confirm the Condominium Project is on the list of [FHA- Approved Condominium Projects](#) at the time of case number assignment and must enter the FHA Condo ID in the Federal Housing Administration Connection ([FHAC](#)) Case Assignment screen.

(B) FHA Insurance Concentration

(1) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(2) Standard

FHA may suspend the issuance of new FHA case numbers for a Mortgage on a Unit in a Condominium Project where the FHA Insurance Concentration is greater than 50 percent of the total number of Units in the Condominium Project.

(C) Owner Occupancy Percentage

(1) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(2) Standard

CMS must determine the Approved Condominium Project has an Owner Occupancy Percentage of at least 35 percent of the total number of Units.

CMS must report the Owner Occupancy Percentage in [FHAC](#) when the functionality becomes available.

(3) Required Documentation

CMS must verify and document the Owner Occupancy Percentage.

(4) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units in the numerator of the calculation:

- any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following Units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(D) Financial Condition

(1) Units in Arrears

(a) Definition

Units in Arrears refer to each Unit with Condominium Association dues or any special assessments that are more than 60 Days past due.

(b) Standard

CMS must verify that no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(c) Required Documentation

CMS must document the percentage of total Units that are Units in Arrears.

(2) Individual Owner Concentration

(a) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- an individual related to the Unit owner by blood, marriage or operation of law;
- an individual serving as the Unit owners' officer, director, or employee; or
- a Unit owner's direct parent company, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(b) Standard

CMS must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

CMS must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

Exception

Affordable housing Units owned by an eligible governmental or nonprofit program defined in 24 CFR § 203.41 are not subject to the Individual Owner Concentration requirements. The affordable housing Units must be identified by recorded legal documents.

(c) Required Documentation

CMS must verify and document the Individual Owner Concentration for the Condominium Project.

(d) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

CMS must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut-Rehab to calculate the Individual Owner Concentration.

(E) Insurance

(1) Walls-In (HO-6)

(a) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(b) Standard

CMS must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(c) Required Documentation

CMS must submit the certificate of insurance or complete copy of the insurance policy that meets the requirements.

(2) Hazard Insurance

(a) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.

(b) Standard

CMS must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Approved Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Approved Condominium Project, including the individual Units in the Approved Condominium Project.

CMS must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option, or an amount of coverage equal to at least 100 percent of the insurable replacement cost.

CMS must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(c) Required Documentation

CMS must submit form HUD-9991, the certificate of insurance or complete copy of the insurance policy, and, if applicable, acceptable evidence of the replacement cost value.

(3) Flood Insurance

(a) Definition

Flood Insurance refers to insurance that covers physical damage by floods.

(b) Standard

CMS must verify that Units in an Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continue to meet the following Flood Insurance requirements:

The Condominium Association must have Flood Insurance in place for buildings in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance under the National Flood Insurance Program (NFIP) for all Units in buildings that are located in an SFHA.

Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Unit multiplied by the number of Units, whichever is less.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(c) Required Documentation

CMS must submit the following documentation:

- documentation of the verification of compliance with the Flood Insurance coverage requirements;
- FEMA flood map with the Condominium Project location clearly marked;
- if applicable, the certificate of insurance or a complete copy of the NFIP policy; and
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or elevation certificate.

(F) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

CMS must determine if the Unit is owned under a Leasehold Interest and complies with the leasehold guidance.

(3) Required Documentation

CMS must document verification of compliance and submit the required documentation in the leasehold guidance.

(G) New Construction

(1) Definitions

New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under Construction, and Properties Existing Less than One Year as defined below:

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The Property must have never been occupied.

Complete Condominium Project refers to a Condominium Project consisting of Units that are Existing Less than One Year and that are ready for occupancy, including completion of all the Infrastructure of the Condominium Project, and not subject to further rehabilitation or construction.

(2) Standard

For Complete Condominium Projects, CMS must comply with the following [General Condominium Project Approval Requirements](#) and guidance in [New Construction](#).

(3) Required Documentation

CMS must submit required documentation for New Construction under the guidance in New Construction.

(H) Gut Rehabilitation

(1) Definition

Gut Rehabilitation (Gut Rehab) refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

(2) Standard

For Gut Rehab conversion Condominium Projects, CMS must comply with the [General Condominium Project Approval Requirements](#) and the [New Construction](#) guidance.

(3) Required Documentation

CMS must submit required documentation for Gut Rehab under the guidance in New Construction.

(I) Manufactured Housing

(1) Definition

Manufactured Housing refers to Structures that are transportable in one or more sections. They are designed to be used as a dwelling when connected to the required utilities, which include the plumbing, heating, air-conditioning and electrical systems contained therein. Manufactured Housing is designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed HUD Certification Label. Manufactured Housing may also be referred to as mobile housing, sectionals, multi-sectionals, double-wide, triple-wide or single-wide. They may be part of an Approved Condominium Project, provided the Condominium Project meets applicable FHA requirements.

A Manufactured Home refers to a single dwelling unit of [Manufactured Housing](#).

(2) Standard

For a Manufactured Home, CMS must comply with the [General Condominium Project Approval Requirements](#) and the guidance in [Property Types - Manufactured Housing](#).

(3) Required Documentation

CMS must submit the required documentation for Manufactured Housing under the guidance in [Property Types - Manufactured Housing](#).

iii. Single-Unit Approval

Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

CMS must verify the following requirements for Single-Unit Approval.

(A) Condominium Project Approval Status

CMS must confirm the Condominium Project is not on the list of [FHA- Approved Condominium Projects](#) at the time of case number assignment.

(B) Borrower Eligibility

To be eligible for Single-Unit Approval, CMS must verify that the mortgage application receives an Accept from TOTAL Mortgage Scorecard or if manually underwritten, has a maximum Loan-to-Value (LTV) of 90 percent.

(C) Property Eligibility

CMS must confirm that the Condominium Project:

- has a CO or equivalent for all units in the Complete Condominium Project or Complete Legal Phase;
- has a CO or equivalent for the subject Unit that was issued at least one year ago or has been occupied;
- has at least five Units;
- is not a Manufactured Home;
- does not have [Ineligible Characteristics](#); and
- is not located in an Approved Condominium Project or unapproved phase of a Condominium Project with an approved Legal Phase.

(1) Classifications

Condominium classifications eligible for Condominium Project Approval include:

- Existing Construction;
- Complete Condominium Project;
- Conversions:
 - Gut Rehab (completed)
 - Non-Gut Rehab
- Two- to Four-Unit Condominium Project;
- Manufactured Housing; and
- Leasehold Interest.

(2) Ineligible Characteristics

FHA will not approve Condominium Projects with the following characteristics:

- cooperative ownership;
- condominium hotel or condotel;
- mandatory rental pooling agreements that require Unit owners to either rent their Units or give a management firm control over the occupancy of the Units;
- timeshare or segmented ownership projects;
- multi-dwelling condominiums (more than one dwelling per Condominium Unit);
- houseboat project;
- continuing care facility;
- [Coastal Barrier Resources System location](#); or
- subject to adverse determination for significant issues as identified by FHA.

(D) Requirements for Eligible Properties

(1) FHA Insurance Concentration

(a) Definition

FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a Condominium Project.

(b) Standard

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 10 or more Units. For Condominium Projects with less than 10 Units, the number of FHA-insured Mortgages cannot exceed two.

(2) Owner Occupancy Percentage

(a) Definition

Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as shown in the calculation.

(b) Standard

CMS must determine that the Condominium Project has an Owner Occupancy Percentage of at least 50 percent of the total number of Units.

CMS must report the Owner Occupancy Percentage in [FHAC](#) when the functionality becomes available.

(c) Required Documentation

CMS must verify and document the Owner Occupancy Percentage.

(d) Calculation

For the sole purposes of calculating the Owner Occupancy Percentage, the numerator of the calculation for a multi-phased Condominium Project includes the total number of the following Units in the first declared Legal Phase and cumulatively in subsequent Legal Phases, or for a single-phased Condominium Project, all of the following Units are included in the numerator of the calculation:

- any Unit that is occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year;
- any Unit listed for sale, and not listed for rent, that was previously occupied by the owner as his or her place of abode for any portion of the calendar year and that is not rented for a majority of the calendar year; or
- any Unit sold to an owner who intends to occupy the Unit as his or her place of abode for any portion of the calendar year and has no intent to rent the Unit for a majority of the calendar year.

For the sole purposes of calculating the Owner Occupancy Percentage, the following units are included in the denominator of the calculation for a:

- multi-phased Condominium Project, the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- single-phased Condominium Project, all Units.

A Unit owned by the builder/developer is not an owner-occupied Unit.

(3) Recorded Documents

(a) Definition

Recorded Documents refer to the Condominium Project's legal, project and governing documents that are required to operate legally as required by state and local law.

(b) Standard

The Condominium Project's Recorded Documents must be recorded in accordance with applicable state and local law to ensure the Condominium Project can be legally operated in the local jurisdiction.

(c) Required Documentation

CMS must submit evidence that the Recorded Documents have been recorded.

(4) Transfer of Control

(a) Definitions

Transfer of Control refers to the shift of existing control over the Condominium Association from the developer/builder to the Unit owners.

Control of the Condominium Association refers to the ability to directly or indirectly control, direct, modify or veto any action of the Condominium Association.

(b) Standard

CMS must verify Control of the Condominium Association has been transferred to the Unit owners and the Covenants, Conditions, and Restrictions (CC&R) have been recorded.

(c) Required Documentation

CMS must document the status of Transfer of Control and submit the recorded CC&Rs.

(5) Financial Condition

(a) Financial Stability

(i) Definition

Financial Stability refers to the ability of the Condominium Association to meet the Condominium Project's needs in the future through positive cash flow and adequately funded reserves.

(ii) Standard

CMS must verify the Financial Stability of the Condominium Project and that:

- the Condominium Association maintains separate accounts for operating and reserve funds;
- a reserve account for capital expenditures and deferred maintenance that is funded with at least 10 percent of the aggregate monthly Unit assessments, unless a lower amount is deemed sufficient based upon an acceptable reserve study; and
- no more than 15 percent of the total Units are Units in Arrears (does not include late fees or administrative expenses).

(iii) Required Documentation

CMS must document compliance of the Condominium Project with the Financial Stability requirements.

(b) Financial Distress Event

(i) Definition

A Financial Distress Event refers to a Condominium Project or builder/developer that has:

- sought protection under bankruptcy laws;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a Deed-in-Lieu (DIL) of Foreclosure.

(ii) Standard

CMS must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

(iii) Required Documentation

CMS must document that the Condominium Project has not experienced a Financial Distress Event within the last three years.

If applicable, CMS must submit a dated legal document evidencing Resolution of Financial Distress Event and a signed and dated explanation.

(c) Individual Owner Concentration

(i) Definitions

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes any individual or Entity related to the Unit owner, including but not limited to:

- an individual related to the Unit owner by blood, marriage or operation of law;
- an individual serving as the Unit owners' officer, director, or employee; or
- Unit owners' direct parent company, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(ii) Standard

CMS must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

CMS must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. No Related Party may own a Unit.

(iii) Required Documentation

CMS must verify and document the Individual Owner Concentration.

(iv) Calculation

For the Individual Owner Concentration calculation:

- on a multi-phased Condominium Project, the Individual Owner Concentration is calculated based on the total number of Units in the first declared Legal Phase and cumulatively on subsequent Legal Phases; or
- for a single-phased Condominium Project, all Units are used in the denominator when calculating the Individual Owner Concentration, except that unoccupied and unsold Units owned by a builder/developer are excluded from the numerator and denominator in the Individual Owner Concentration calculation.

CMS must use the total number of declared Units in the Condominium Project for Complete Condominium Projects and Gut- Rehab to calculate the Individual Owner Concentration.

(d) Commercial/Non-Residential Financial Independence

(i) Definition

Commercial/Non-Residential Financial Independence refers to the ability of the Residential Space and Commercial/Non-Residential Space of the Condominium Project to be independently sustainable such that neither portion of the Condominium Project is financially reliant on the other.

(ii) Standard

For projects with Commercial/Non-Residential Space, CMS must verify there is Commercial/Non-Residential Financial Independence.

(iii) Required Documentation

CMS must document Commercial/Non-Residential Financial Independence.

For Condominium Projects with Commercial/Non-Residential Space, CMS must submit:

- a current year budget approved by the board(s);
- a year-to-date income and expense statement dated within 90 Days if the prior year to date actuals are more than 90 Days old;
- an income and expense statement for the previous year's actual year end results; and
- a current balance sheet dated within 90 Days prior to the date of submission.

(6) Insurance Coverage

The Condominium Project where the single Unit is located must be insured to FHA standards as well as any applicable state and local condominium requirements.

The insurance policies must list the Condominium Association as the named insured, or in the case of an affiliated Condominium Project or Condominium Association, the name of the affiliated Condominium Project or Condominium Association may be listed as a named insured.

(a) Walls-In (HO-6)

(i) Definition

Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property inside the Unit.

(ii) Standard

CMS must verify that the Borrower has obtained a Walls-In policy (HO-6) if the master or blanket policy does not include interior Unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the Borrower may have made to the Unit.

(iii) Required Documentation

CMS must submit a certificate of insurance or complete copy of the insurance policy that meets the requirements.

(b) Hazard Insurance

(i) Definition

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, natural occurrences, or other events outside of the Condominium Project's control.

(ii) Standard

CMS must verify that the Condominium Association has a master or blanket Hazard Insurance policy in place for the entire Condominium Project in an amount equal to at least 100 percent of the insurable replacement cost of the Condominium Project, including the individual Units in the Condominium Project.

CMS must verify that any policy with a coinsurance clause includes an agreed amount endorsement or selection of the agreed value option, or an amount of coverage equal to at least 100 percent of the insurable replacement cost.

CMS must verify that any pooled insurance policy satisfies the insurance coverage standard for each Condominium Project insured under the policy.

(iii) Required Documentation

CMS must submit form HUD-9991, a certificate of insurance or complete copy of the insurance policy, and if applicable, acceptable evidence of the replacement cost value.

(c) Liability Insurance

(i) Definition

Liability Insurance refers to insurance that protects against legal claims.

(ii) Standard

CMS must verify that the Condominium Association maintains comprehensive Liability Insurance for the entire Condominium Project, including all common areas, elements, public ways, and all other areas that are under its supervision, in the amount of at least \$1 million for each occurrence.

(iii) Required Documentation

CMS must submit a certificate of insurance or complete copy of the insurance policy that meets the requirements.

(d) Fidelity Insurance

(i) Definition

Fidelity Insurance refers to insurance that protects the Condominium Association against employee dishonesty, crime, or other fraudulent acts conducted by one or more employees.

(ii) Standard

CMS must verify that for all Condominium Projects with more than 20 Units, the Condominium Association maintains Fidelity Insurance for all officers, directors, and employees of the Condominium Association and all other persons handling or responsible for funds administered by the Condominium Association.

CMS must verify that the insurance coverage is the greater of:

- three months of aggregate (12-month) assessments on all Units plus reserve funds (up to the maximum permitted by state law); or
- the minimum amount required by state law.

If the Condominium Project engages a management company, the policy or policies must demonstrate that they specifically meet the standard for both the Condominium Association and the management company.

(iii) Required Documentation

CMS must submit the certificate of insurance or a complete copy of the insurance policy from the Condominium Association and/or from the management company that meets the requirements.

(e) Flood Insurance

(i) Definition

Flood Insurance refers to insurance that covers physical damage by floods.

(ii) Standard

CMS must verify that Units in an Approved Condominium Project located in a Special Flood Hazard Area (SFHA) continue to meet the following Flood Insurance requirements:

The Condominium Association must have Flood Insurance in place for buildings in the Condominium Project that are located within Special Flood Hazard Areas (SFHA) including “A” or “V” zones, which are determined by the Federal Emergency Management Agency (FEMA).

The Condominium Association must have Flood Insurance under the National Flood Insurance Program (NFIP) for all Units in buildings that are located in an SFHA.

Coverage must be equal to the replacement cost of the covered improvements or the NFIP maximum per Unit multiplied by the number of Units, whichever is less.

The insurance policies must list the Condominium Association as the named insured, or, in the case of an affiliated Approved Condominium Project or Condominium Association, the name of the affiliated Approved Condominium Project or Condominium Association may be listed as a named insured.

(iii) Required Documentation

CMS must submit the following documentation:

- documentation of the verification of compliance with the Flood Insurance coverage requirements;
- FEMA flood map with the Condominium Project location clearly marked;
- if applicable, the certificate of insurance or a complete copy of the NFIP policy; and
- if applicable, the Letter of Map Amendment (LOMA), Letter of Map Revision (LOMR), or elevation certificate.

(7) Projects in Coastal Barrier Resources System or Special Flood Hazard Areas

(a) Projects in Coastal Barrier Resources System

If any part of the Condominium Project is located within the Coastal Barrier Resources System (CBRS), the Condominium Project is not eligible for FHA Single-Unit Approval.

(b) Special Flood Hazard Areas

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project meets the following Special Flood Hazard Areas requirements:

(i) Complete Condominium Project

If any portion of the Structures or equipment essential to the value of the Condominium Project is located within an SFHA, then the Condominium Project is not eligible for Condominium Project Approval, unless the Condominium Project:

- obtains a final LOMA or final LOMR from FEMA that removes the Property from the SFHA; or
- obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor. The Elevation Certificate must document that the lowest floor, including the basement of the residential building(s), and all related improvements/equipment essential to the value of the Property is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and insurance under the NFIP is obtained.

(ii) Manufactured Housing

If any portion of the Structures or equipment essential to the value of the Manufactured Housing Condominium Project for both new and existing Manufactured Homes are located within an SFHA, the Property is not eligible for FHA mortgage insurance unless the following is submitted:

- a FEMA issued LOMA or LOMR that removes the Property from the SFHA; or
- FEMA Form 086-0-33 prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and insurance under the NFIP is obtained.

(iii) Required Documentation

The following documentation must be submitted:

- if applicable, FEMA LOMA;
- if applicable, FEMA LOMR; or
- if applicable, FEMA Form 086-0-33.

(8) Commercial/Non-Residential Space

(a) Definitions

Commercial/Non-Residential Space refers to floor area allocated to:

- retail and commercial square footage (excludes [Live/Work Units](#));
- multi-level parking garage square footage that is separate from multi-level parking garage square footage allocated to residential Unit owners;
- building common areas not reserved for the exclusive use of residential Unit owners; and
- any square footage that is owned by a private individual or Entity outside of the Condominium Association.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Residential Space refers to floor area allocated to:

- all Unit square footage;
- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Non- Residential Space.

Total Floor Area refers to all Residential Space and Commercial/Non- Residential Space.

(b) Standard

CMS must verify that the Condominium Project's Commercial/Non-Residential Space does not exceed 35 percent of the Condominium Project's Total Floor Area.

(c) Required Documentation

CMS must document the percentage of Commercial/Non- Residential Space and submit the following documentation:

- recorded Site Condominium plans; and
- recorded CC&Rs.

(9) Live/Work Unit

(a) Definitions

A Live/Work Condominium Project refers to a Condominium Project that allows space within the individual Unit to be used jointly for non-residential and residential purposes.

A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

(b) Standard

CMS must verify that the Condominium Project governing documents allow Live/Work arrangements.

CMS must verify that the individual Live/Work Unit does not contain more than 49 percent Commercial/Non-Residential Space.

(c) Required Documentation

CMS must document compliance with the Live/Work requirements.

(10) Leasehold Interest

(a) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(b) Standard

CMS must determine if Condominium Projects with Units or Common Elements owned under a Leasehold Interest are eligible and meet the following requirements:

- The Condominium Association must be the lessee under the lease.
- The lease of the Common Elements provides that a default of the Condominium Association does not result in a disturbance of any rights of the Unit owners.
- The lease provides that the Mortgagee receives notice of any monetary or Non-Monetary Default by the Condominium Association and is given the right to cure any defaults on behalf of the Condominium Association.
- The lease provides for the payment of taxes and insurance related to the land, in addition to those being paid for the improvements.
- The Condominium Association must not be in default under any provisions of the lease.
- The lease does not include any default provisions that could result in forfeiture or termination of the lease except for nonpayment of lease rents.
- The Condominium Project must comply with the Title II [Leasehold guidance](#) as applicable.

(c) Required Documentation

CMS must submit the lease and comply with the required documentation in the Leasehold guidance.

(11) Litigation

(a) Definition

Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or mediation involving the Condominium Project or Condominium Association, or those concluded within 12 months of the application date. Litigation does not include foreclosure or actions to collect past due assessments brought by the Condominium Association or Condominium Project as plaintiff.

(b) Standard

CMS must verify that the Condominium Project or Condominium Association is not subject to Litigation that relates to the safety, structural soundness, habitability, or functional use of the Condominium Project.

CMS must verify that the Condominium Project or Condominium Association is not subject to any other Litigation risk not covered by insurance or that exceeds the amount of insurance coverage relating to the potential losses for that matter.

(c) Required Documentation

CMS must document if the Condominium Project or Condominium Association are subject to pending litigation or any other litigation risk.

iv. Site Condominium

(A) Definition

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:
 - consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
 - does not contain any Manufactured Housing units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

(B) Standard

Site Condominiums must have insurance and maintenance costs that are the sole responsibility of the Unit owner, excluding landscaping.

Site Condominiums do not require Condominium Project Approval or Single-Unit Approval.

(C) Required Documentation

CMS must submit the following documentation:

- [Condominium Rider](#);
- appraisal completed on [Fannie Mae Form 1073/Freddie Mac Form 465](#), Individual Condominium Unit Appraisal Report, evidencing that all Units satisfy the Site Condominium definition;
- certificate of Hazard Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling; and
- if required under the [Flood Insurance requirements](#), a certificate of Flood Insurance or complete copy of the insurance policy evidencing coverage of the entire dwelling.

8. 203(k) Consultant Requirements

a. Overview

A Federal Housing Administration (FHA)-approved 203(k) Consultant is required for all Standard 203(k) Mortgages and may be used for Limited 203(k) Mortgages. Any Consultant who performs work on a 203(k) must be listed on the FHA 203(k) Consultant Roster. The Consultant inspects the Property and prepares the architectural exhibits, the Work Write-Up and Cost Estimate.

For information on how to become an approved 203(k) Consultant, refer to Doing Business with FHA.

b. Consultant Duties

The Consultant must perform the following duties in accordance with the requirements set forth below.

i. Feasibility Study/Plan Review

If requested by the Borrower or CMS to determine if a project is financially feasible, the Consultant must prepare a Feasibility Study.

ii. Consultant Inspection

The Consultant must inspect the Property to ensure:

- there are no rodents, dry rot, termites and other infestation on the Property;
- there are no defects that will affect the health and safety of the occupants;
- there exists adequate structural, heating, plumbing, electrical and roofing systems; and
- there are upgrades to the Structure's thermal protection (when necessary).

The Consultant must prepare a report on the current condition of the Property that categorically examines the Structure utilizing the 35 point checklist. The report must address any deficiencies that exist and certify the condition of all major systems: electrical, plumbing, heating, roofing and structural.

The Consultant must determine the repairs/improvements that are required to meet the U.S. Department of Housing and Urban Development (HUD)'s Minimum Property Requirements (MPR), Minimum Property Standards (MPS) and local requirements.

iii. Architectural Exhibits

The Consultant is responsible for identifying all required architectural exhibits. The Consultant must prepare the exhibits, or, if not qualified to prepare all of the necessary exhibits, must obtain the exhibits from a qualified subcontractor.

iv. Work Write-Up and Cost Estimate

The Consultant must prepare an unbiased Work Write-Up and Cost Estimate without the use of the contractor's estimate. The Work Write-Up and Cost Estimate must be detailed as to work being performed per the project proposal, including the necessary reports described in the Architectural Exhibit Review section.

v. Draw Request Inspection

The Consultant must inspect the work for completion and quality of workmanship at each draw request.

vi. Change Order

At the Borrower's or CMS's request, the Consultant must review the proposed changes to the Work Write-Up and prepare a change order.

vii. Work Stoppages or Deviations from the Approved Write-Up

The Consultant must inform CMS of the progress of the rehabilitation and of any problems that arise, including:

- work stoppages of more than 30 consecutive Days or work not progressing reasonably during the habilitation period;
- significant deviations from the Work Write-Up without the Consultant's approval;
- any issues that could affect adherence to the program requirements or property eligibility; or
- any issues that could affect the health and safety of the occupants or the security of the Structure.

c. Consultant Fee Schedule

Below are the maximum fees that may be charged by the Consultant.

i. Feasibility Study/Plan Review

If requested by the Borrower or CMS to determine if a 203(k) Mortgage is feasible, the Consultant may charge an additional fee of \$100 for the preparation of a Feasibility Study.

ii. Work Write-up

The Consultant may charge the fees listed below for the preparation of the Work Write-Up and review of architectural exhibits:

- \$400 for repairs less than \$7,500
- \$500 for repairs between \$7,501 and \$15,000
- \$600 for repairs between \$15,001 and \$30,000
- \$700 for repairs between \$30,001 and \$50,000
- \$800 for repairs between \$50,001 and \$75,000
- \$900 for repairs between \$75,001 and \$100,000
- \$1,000 for repairs over \$100,000

The Consultant may charge an additional \$25 per additional Dwelling Unit.

iii. Draw Inspection Fee

The Consultant may charge \$100 per draw request.

iv. Change Order Fee

The Consultant may charge \$100 per change order request.

v. Re-inspection Fee

The Consultant may charge a \$50 fee when re-inspection of a Work Item is requested by the Borrower or CMS.

vi. Mileage Fee

The Consultant may charge a mileage fee at the current Internal Revenue Service (IRS) mileage rate when the Consultant's place of business is more than 15 miles from the Property.

d. Architectural Exhibit Review

The Consultant must prepare or obtain and review all applicable architectural exhibits.

Architectural exhibits may include, but are not limited to, the following:

- well certification;
- septic certification;
- termite report (including all outbuildings);
- proposed plot plans for new additions;
- foundation certification by a licensed structural engineer, as applicable
- cabinetry plans and elevations;
- New Construction exhibits to obtain a building permit for an addition;
- grading and drainage plans; or
- engineering and soil/geotechnical reports.

e. Preparing the Work Write-Up and Cost Estimate

The Consultant must prepare a Work Write-Up that identifies each Work Item. The Work Write-Up must be prepared in a categorical manner that addresses each of the 35 point checklist items. The Consultant must indicate which Work Items require permits.

The Consultant must also prepare a Cost Estimate for each Work Item in the Work Write-Up.

The Cost Estimate must separately identify labor costs and itemize the cost of materials per Work Item. Work Item refers to a specific repair or improvement that will be performed. The Consultant must use Cost Estimates that are reasonable for the area in which the Property is located. Lump sum costs are permitted only in line items where a lump sum estimate is reasonable and customary.

i. Conformance with Minimum Property Requirements or Minimum Property Standards

The Work Write-Up must specifically identify whether the Work Item is required to meet MPS or MPR, will involve structural changes, or is a Borrower-elective.

ii. Health and Safety

The Consultant must ensure that all health and safety concerns and any appraiser requirements are addressed in the Work Write-Up before the addition of any other Work Items.

f. Feasibility Study/Plan Review

If requested by the Borrower or CMS, the Consultant must perform a Feasibility Study that consists of a preliminary inspection of the Property and an estimate of the materials and cost for the work that will be necessary to comply with HUD requirements.

g. Draw Request Inspection

The Consultant must perform draw request inspections when requested by CMS.

The Consultant must ensure that all building permits are onsite for the work that was performed. The Consultant must ensure that the work:

- has been completed satisfactorily; and
- conforms to all local codes and ordinances.

h. Change Order

When requested by CMS or the Borrower, the Consultant must review the proposed changes or additions to the Work Write-Up. The Consultant must evaluate any costs and adjust other Work Items, if necessary, to complete the change order. The Consultant must provide all costs for labor and materials as a result of the change order on form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*. The proposed work per the change order is not permissible to proceed until approved by CMS.

i. Additional Required Documentation

The Consultant must provide CMS with the following documentation.

i. 203(k) Consultant’s Certification

All Consultants are required to sign the following certification after preparing/reviewing the Work Write-Up and Cost Estimate, stating:

“I hereby certify that I have carefully inspected this property for compliance with the general acceptability requirements (including health and safety) in HUD’s Minimum Property Requirements or Minimum Property Standards. I have required as necessary and reviewed the architectural exhibits, including any applicable engineering and termite reports, and the estimated rehabilitation cost and they are acceptable for the rehabilitation of this property. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. I also certify that I have no identity-of-interest or conflict-of-interest with the borrower, seller, mortgagee, real estate agent appraiser, plan reviewer, contractor, or subcontractor or any party with a financial interest in the transaction. To the best of my knowledge, I have reported all items requiring correction and the rehabilitation proposal now meets all HUD requirements for 203(k) Rehabilitation Mortgage Insurance.”

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Consultant’s Signature Date

ii. Consultant/Borrower Agreement

The Consultant and Borrower must sign a written agreement that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a “Home Inspection” as detailed in the disclosure form HUD-92564-CN, *For Your Protection: Get a Home Inspection*.

Please note: If the Consultant is a state-approved home inspector or a member of an accredited State or National Home Inspection Association, CMS will not require a Home Inspection to be completed.

iii. Inspections and Draw Requests

(A) Draw Request Form

At each draw inspection, the Consultant must complete form HUD-9746-A, *Draw Request Section 203(k)*, to indicate completion of the repairs in compliance with the Work Write-Up and architectural exhibits. The Consultant must ensure all repairs meet all local codes and ordinances, including any required permits and inspections.

The Consultant must ensure that both the Borrower and the contractor sign the form to certify that the work has been completed in a workmanlike manner before authorizing payments.

Generally, a release of funds may not be requested for materials that have been paid for but not yet installed.

(B) Exception

The Consultant may request a release of funds for:

- materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; or
- up to 50 percent (50%) of materials costs for items, not yet paid for by the Borrower or contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

To request release of funds for these items, the Consultant must provide CMS with a copy of the contract and order with the draw request.

iv. Change Order Requests

The Consultant must complete a change order request on form HUD-92577, *Request for Acceptance of Changes in Approved Drawings and Specifications*, for contingency items and other changes that may increase or decrease the cost of rehabilitation or the value of the Property.

Work must be 100 percent (100%) complete on each change order item before the Consultant may authorize release of funds for the work noted on the change order. The Consultant must ensure that all repairs meet all local codes and ordinances, including any required permits and inspections.

APPRAISER AND PROPERTY REQUIREMENTS

The appraisal process provides CMS with necessary information to determine if a property meets the minimum requirements and eligibility standards for a Federal Housing Administration (FHA)-insured Mortgage and will serve as adequate security for a specific FHA insured Mortgage. CMS bears primary responsibility for determining eligibility and the sufficiency of collateral; however, the Appraiser provides preliminary verification that the Property Acceptability Criteria have been met and an appraised value for the property.

Property refers to the real estate entity that will serve as adequate security for a specific FHA insured Mortgage.

The requirements in this section contain the Property Acceptability Criteria for FHA mortgage insurance, which include Minimum Property Requirements (MPR) and Minimum Property Standards (MPS), and include by reference, associated rules and regulations. The criteria apply to residential Properties containing one- to four-family housing units, individual condominium units, and Manufactured Housing units, and related property improvements and the sites on which they are located, as well as the immediate environment for the dwelling, including streets and other services or facilities associated with the site. Manufactured Housing Properties have additional requirements contained in the Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages section. This section also provides requirements for Appraisers in establishing a credible appraised value for a Property that is to serve as security for an FHA-insured Mortgage.

9. Commencement of the Appraisal

a. Information Required before Commencement of Appraisal

The Appraiser must obtain all of the following from CMS before beginning an appraisal:

- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
- any other legal documents contained in the loan file; and
- a point of contact and contact information for CMS so that the Appraiser can communicate any noncompliance issues.

b. Additional Information Required Before Commencement of an Appraisal on New Construction

The Appraiser must obtain, from CMS, a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to the date of the appraisal order and documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished.

10. General Appraiser Requirements

The Appraiser must be a State-licensed or certified (Residential or General) real estate appraiser in the State in which the subject property is located, have knowledge and experience in appraising the property type in the market area and have access to the applicable data sources. Trainee appraisers are unacceptable to CMS.

Nondiscrimination Policy

The Appraiser must be knowledgeable of and fully comply with all federal, state, and local laws, including any antidiscrimination laws, rules applicable to the subject property, or any provisions of the Fair Housing Act.

No part of the appraisal analysis or reporting may be based on the race, color, religion, sex, actual or perceived sexual orientation, actual or perceived gender identity, age, actual or perceived marital status, disability, familial status, national origin of either the prospective owners or occupants of the Property, present owners or occupants of the Property, or the present owners or occupants of the properties in the vicinity of the Property, or on any other basis prohibited by federal, state, or local law.

Compliance with FHA Guidelines and USPAP

The Appraiser must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when completing appraisals of Property used as security for FHA-insured Mortgages. The Appraiser must observe, analyze, and report that the Property meets HUD's MPR and MPS.

Minimum Property Requirements refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards refer to regulatory requirements relating to the safety, soundness and security of New Construction.

Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility. The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with HUD's MPR and MPS.

When performing an appraisal, the Appraiser must review and analyze the following:

- the land lease, if applicable; and
- surveys or legal descriptions, if available; and
- any other legal documents contained in the loan file, and report the results of that analysis in the appraisal report.

Appraiser Conduct

The Appraiser must perform all FHA appraisal assignments in a competent, independent, impartial, and objective manner. The Appraiser must avoid practices that could affect the reliability of the appraisal report opinions and conclusions. In addition to compliance with USPAP, including the Competency Rule, the Appraiser must not:

- discriminate in developing any part of the appraisal or value conclusion based on characteristics that are protected by federal, state, or local laws;
- misrepresent the scope of work performed in the completion of the FHA appraisal; or
- develop or communicate an appraisal report to FHA that is knowingly misleading or fraudulent.

Sales Transaction or New Construction

When performing an appraisal for a sales transaction or on New Construction, the Appraiser must also review and analyze the following:

- the complete copy of the executed sales contract for the subject; and
- documents related to New Construction, including plans, specifications, and any exhibits provided that will assist the Appraiser in determining what is to be built, or, if now Under Construction, what will be built when finished;
- and report the results of that analysis in the appraisal report.

If the seller is not the owner of record, the Appraiser must include an explanation in the appraisal report.

11. Acceptable Appraisal Reporting Forms and Protocols

The Appraiser must complete the Fannie Mae Form 1004 MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report*, for every appraisal. Other forms to be used in the completion of an FHA appraisal are as follows:

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004/Freddie Mac Form 70, <i>Uniform Residential Appraisal Report (URAR)</i> ; Mortgage Industry Standards Maintenance Organization (MISMO) 2.6 Government-Sponsored Enterprise (GSE) format
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, <i>Individual Condominium Unit Appraisal Report</i> ; MISMO 2.6 GSE format
Manufactured (HUD Code) Housing	Fannie Mae Form 1004C/Freddie Mac Form 70B, <i>Manufactured Home Appraisal Report</i> ; MISMO 2.6 Errata 1 format
Small Residential Income Properties (Two to Four Units)	Fannie Mae Form 1025/Freddie Mac Form 72, <i>Small Residential Income Property Appraisal Report</i> ; MISMO 2.6 Errata 1 format
Compliance or Final Inspection for New Construction or Manufactured Housing	Form HUD-92051, <i>Compliance Inspection Report</i> , in Portable Document Format (PDF)
Compliance or Final Inspection for Existing Property	Certification of Completion Section of Fannie Mae Form 1004D/Freddie Mac Form 442, <i>Appraisal Update and/or Completion Report</i> ; MISMO 2.6 Errata 1 format

Instructions detailing specific requirements for reporting the results of the appraisal, including data and file format and delivery are found in the [FHA Single Family Housing Appraisal Report and Data Delivery Guide](#).

a. Additional Documentation Required for Appraisals of New Construction

When New Construction is less than 90% complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90% or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

b. Application of Minimum Property Requirements and Minimum Property Standards by Construction Status

i. Existing Construction

(A) Definition

Existing Construction refers to a Property that has been 100 percent (100%) complete for over one year or has been completed for less than one year and was previously occupied.

(B) Standard

For Existing Construction, the Appraiser must notify CMS of the deficiencies when the Property does not comply with HUD's MPR.

ii. New Construction

(A) Definition

New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year.

- Proposed Construction refers to a Property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent (100%) completion with no Certificate of Occupancy (CO) or equivalent.
- Existing Less than One Year refers to a Property that is 100 percent (100%) complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The Property must have never been occupied.

(B) Standard

For New Construction, the Appraiser must notify CMS of the deficiencies when the Property does not comply with HUD's MPR and MPS, including 24 CFR §§ 200.926a-200.926e.

iii. Determination of Defective Conditions

(A) Definition

Defective Conditions refer to defective construction, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards or other conditions affecting the health and safety of occupants, collateral security or structural soundness of the dwelling.

(B) Standard

The Appraiser must identify readily observable defective conditions.

Environmental hazards can include Sulphur containing drywall AKA: Chinese drywall. An environmental property inspection is required.

The interior appraisal for the subject property constructed from 2005-present in FL, VA or LA does not include the required narrative commentary in an addendum stating whether or not corrosive imported drywall (Chinese Drywall) is suspected.

The report does not contain comments and corresponding photos to note whether any of the following is observed:

- (A) Corrosion on metal fixtures, wires, or plumbing
- (B) Sulfur odor in the home
- (C) Drywall with "Made in China" or "Knauf" markings

Defective Conditions Requiring Repair

The Appraiser must identify defective conditions that are curable and will make the Property comply with HUD's MPR, and provide an estimated cost to cure.

iv. Inspection by a Qualified Individual or Entity

If the Appraiser cannot determine that a Property meets HUD's MPR or MPS, an inspection by a qualified individual or Entity may be required.

Conditions that require an inspection by qualified individuals or Entities include:

- standing water against the foundation and/or excessively damp basements;
- hazardous materials on the site or within the improvements;
- faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- evidence of possible structural failure (e.g., settlement or bulging foundation wall, unsupported floor joists, cracked masonry walls or foundation);
- evidence of possible pest infestation;
- leaking or worn-out roofs; or
- any other condition that in the professional judgment of the Appraiser warrants inspection.

Appraisers may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

Required Analysis and Reporting

The Appraiser must observe, analyze and report defective conditions and must also provide photographic documentation of those conditions in the appraisal report.

If inspection is required, the Appraiser must cite the reason for requiring an inspection.

c. Minimum Property Requirements and Minimum Property Standards

MPR and MPS form the basis for identifying the deficiencies of the Property that the Appraiser must note within the appraisal report.

i. Legal Requirements

(A) Real Estate Entity

The Appraiser must contact CMS if the subject Property is not a single, marketable real estate entity, and/or does not consist of a primary plot with a secondary plot contributing to the use and marketability of the Property as a single marketable real estate entity.

(B) Property Rights

(1) Definition

Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

Leasehold refers to the right to hold or use Property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

(2) Standard

An Appraiser must contact CMS if the property rights to be appraised are not on real estate held in Fee Simple or Leasehold that comply with HUD's requirements below.

(C) Planned Unit Development

(1) Definition

A Planned Unit Development (PUD) refers to a residential development that contains, within the overall boundary of the subdivision, common areas and facilities owned by a Homeowners' Association (HOA), to which all homeowners must belong and to which they must pay lien-supported assessments. A unit in a PUD consists of the fee title to the real estate represented by the land and the improvements thereon plus the benefits arising from ownership of an interest in the HOA.

(2) Standard

An Appraiser must contact CMS if the Property is located in a PUD that does not meet this definition.

(D) Leasehold Interest

(1) Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

(2) Standard

(a) Mortgage Requirements

A Mortgage secured by real estate under Leasehold requires a renewable lease with a term of not less than 99 years, or a lease that will extend not less than 10 years beyond the maturity date of the Mortgage. Sub-Leasehold Estates are not eligible for FHA mortgage insurance.

(3) Required Analysis and Reporting

An Appraiser must contact CMS if the Leasehold Interest does not meet this requirement.

ii. Legal and Land Use Considerations

(A) Party or Lot Line Wall

(1) Standard

A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.

(2) Required Analysis and Reporting

The Appraiser must note if the party or lot line wall does not extend to the ridge of the roof or beyond.

(B) Non-Residential Use of Property

(1) Standard

The non-residential portion of the total floor area may not exceed 25 percent (25%).

Any non-residential use of the Property must be subordinate to its residential use, character and appearance. Non-residential use may not impair the residential character or marketability of the Property. The non-residential use of the Property must be legally permitted and conform to current zoning requirements.

(2) Required Analysis and Reporting

The Appraiser must calculate the non-residential portion of any residential Property. Storage areas or similar spaces that are integral parts of the nonresidential portion must be included in the calculation of the non-residential area.

The Appraiser must comment on any non-residential use within the Property and state the percentage of the total floor area that is utilized as non-residential. The Appraiser must report whether the non-residential usage is legal and in compliance with current zoning requirements.

(C) Zoning

(1) Standard

FHA requires the Property to comply with all applicable zoning ordinances.

(2) Required Analysis and Reporting

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.

(D) Encroachments

(1) Definition

An Encroachment refers to an interference with or intrusion onto another’s property.

(2) Standard

The Appraiser must report the presence of any Encroachments so that CMS can determine eligibility.

(3) Required Analysis and Reporting

The Appraiser must identify any Encroachments of the subject’s dwelling, garage, or other improvement onto an adjacent Property, right-of-way, utility Easement, or building restriction line. The Appraiser must also identify any Encroachments of a neighboring dwelling, garage, other physical Structure or improvements onto the subject Property.

The Appraiser must notify CMS if, upon observation, it appears that an Encroachment affects the subject Property.

(E) Easements and Deed Restrictions

(1) Definition

An Easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.

A Deed Restriction refers to a private agreement that restricts the use of real estate in some way, and is listed in the deed.

(2) Standard

The Appraiser must note the presence of any Easements and Deed Restrictions to assist CMS in determining eligibility.

(3) Required Analysis and Reporting

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.

iii. Externalities

(A) Definition

Externalities refer to off-site conditions that affect a Property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas lines, Overhead Electric Power Transmission Lines and Local Distribution Lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

(B) Standard

The Appraiser must report the presence of Externalities so that CMS can determine eligibility.

(C) Required Analysis and Reporting

The Appraiser must consider how Externalities affect the marketability and value of the Property, report the issue and the market's reaction, and address any positive or negative effects on the value of the subject Property within the approaches to value.

(1) Heavy Traffic

The Appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues.

(2) Airport Noise and Hazards

The Appraiser must identify if the Property is affected by noise and hazards of low flying aircraft because it is near an airport. The Appraiser must review airport contour maps and analyze accordingly. The Appraiser must determine and report the marketability of the Property based on this analysis.

(3) Special Airport Hazards

The Appraiser must identify if the Property is located within a Runway Clear Zone (also known as a Runway Protection Zone) at a civil airport or Clear Zone military airfield and consider the effect of the airport hazards on the marketability when valuing the subject Property.

For Properties located in an Accident Potential Zone 1 (APZ 1) at military airfields, the Appraiser must require compliance with the Department of Defense (DoD) Guidelines and a buyer's acknowledgement.

(a) Existing Dwelling

The Appraiser must condition the appraisal on the Borrower's acknowledgment of the hazard.

(b) Proposed Construction, Under Construction, and Existing Less than One Year

The Appraiser must note that the Property is for FHA insurance and notify CMS.

(4) Proximity to High Pressure Gas Lines

The Appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both aboveground and subsurface. The Appraiser must determine and report the marketability of the Property based on this analysis.

The Appraiser must notify CMS of the deficiency of MPR or MPS if the Property is not located more than 10 feet from the nearest boundary of the pipeline Easement.

(5) Overhead Electric Power Transmission and Local Distribution Lines

(a) Definitions

Overhead Electric Power Transmission Lines refer to electric lines that supply power from power generation stations to Local Distribution Lines.

Local Distribution Lines refer to electric lines that commonly supply power to residential housing developments, similar facilities and individual Properties.

(b) Required Analysis and Reporting

The Appraiser must notify CMS of the deficiency of MPR or MPS if the Overhead Electric Power Transmission Lines or the Local Distribution Lines pass directly over any dwelling, Structure or related property improvement, including pools, spas, or water features.

The Appraiser must notify CMS of the deficiency of MPR or MPS if the dwelling or related property improvements are located within an Easement or if they appear to be located within an unsafe distance of any power line or tower.

The Appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances. The Appraiser must also determine if the guidelines for Encroachments apply.

(6) Smoke, Fumes and Offensive or Noxious Odors

The Appraiser must notify CMS if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the Property.

The Appraiser must consider the effect of the condition in the valuation of the Property if the conditions exist but do not threaten the occupants or marketability.

(7) Stationary Storage Tanks

If the subject property line is located within 300 feet of an above ground, stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material, then the Property is ineligible for FHA insurance, and the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS.

iv. Site Conditions

(A) Access to Property

(1) Definition

Adequate Vehicular Access to Property refers to an all-weather road surface over which emergency and typical passenger vehicles can pass at all times.

(2) Required Analysis and Reporting

The Appraiser must notify CMS of the deficiency of MPR or MPS if the Property does not have safe pedestrian access and Adequate Vehicular Access from a public street or private street that is protected by a permanent recorded Easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

The Appraiser must note whether there is safe pedestrian access and Adequate Vehicular Access to the site and analyze any effect on value or marketability.

The Appraiser must report evidence of a permanent Easement.

The Appraiser must ask if a maintenance agreement exists and comment on the condition of the private road or lane.

(B) Onsite Hazards and Nuisances

(1) Definition

Onsite Hazards and Nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the Property.

(2) Standard

The Appraiser must report the presence of all Onsite Hazards and Nuisances so that CMS can determine eligibility and any corrective work that may be necessary to mitigate potential adverse effects from the special conditions.

(3) Required Analysis and Reporting

The Appraiser must note and comment on all Onsite Hazards and Nuisances affecting the Property. The Appraiser must also provide photographs of potential problems or issues to assist CMS in understanding the problem.

Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

New and Proposed Construction

The Appraiser must report any special conditions that may exist or arise during construction and necessitate precautionary or hazard mitigation measures.

(C) Topography

The Appraiser must notify CMS of the deficiency of MPR or MPS if the surface and subsurface water is not diverted from the dwelling to ensure positive drainage away from the foundation.

The Appraiser must make the appraisal subject to an inspection by a qualified individual or Entity if the purchase contract or any other documentation indicates, or if the Appraiser observes dampness because of a foundation issue.

The Appraiser must report to CMS any danger due to topographic conditions (e.g., earth and mudslides from adjoining properties, falling rocks and avalanches) to the subject Property or the adjoining land.

(D) Grading and Drainage

The Appraiser must check for readily observable evidence of grading and drainage problems. Proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation.

The Appraiser must make the appraisal subject to repair if the grading does not provide positive drainage away from the improvements. The Appraiser must note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage. The Appraiser must report this in the “Site” section of the report, if the standing water is problematic.

(E) Suitability of Soil

The Appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formations and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

The Appraiser should also consider events and published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.

The Appraiser must analyze and report how this would affect the Property.

(F) Subsidence and Sinkholes

(1) Definition

Land Subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

(2) Standard

Danger of Land Subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsoil or subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes or settlement problems.

CMS does not provide financing for properties with evidence of subsidence, or sink holes

(G) Oil or Gas Wells

(1) Operating or Proposed

The Appraiser must examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling.

The Appraiser must notify CMS of the deficiency of MPR or MPS if the dwelling is located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.

(2) Abandoned

If the Appraiser notes an abandoned gas or oil well on the subject site or an adjacent Property, the Appraiser must stop work and notify CMS.

The Appraiser may resume work when CMS provides a letter from local jurisdiction or the appropriate state agency, stating that the subject well was permanently abandoned in a safe manner.

The Appraiser may only complete the appraisal on a Property located near a gas well that emits hydrogen sulfide if the minimum clearance has been established by a petroleum engineer. The Appraiser must assess any impact that the location of the well has on the value and marketability of the Property.

Hydrogen Sulfide

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

The Appraiser may only complete an appraisal on a Property if CMS has required an inspection by a qualified person and provided evidence that the minimum clearance has been established.

(H) Slush Pits

(1) Definition

A Slush Pit refers to a basin in which drilling “mud” is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

(2) Required Analysis and Reporting

If the Property has a Slush Pit, the Appraiser must make the appraisal subject to the removal of all unstable and toxic materials and the site made safe.

(I) Property Eligibility in Special Flood Hazard Areas

The Appraiser must review the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) and make appropriate notations on the applicable appraisal reporting form. If the Property appears to be located within a Special Flood Hazard Area (SFHA), the Appraiser must attach a copy of the flood map panel to the appraisal report.

The Appraiser must enter the FEMA zone designation on the reporting form, and identify the map panel number and map date. If the Property is not shown on any map, the Appraiser must enter “not mapped.” The Appraiser must quantify the effect on value, if any, for Properties situated within a designated SFHA.

(J) Coastal Barrier Resources System

The Appraiser must stop work and notify CMS of the deficiency of MPR or MPS if the Property is located within a Coastal Barrier Resources System (CBRS) designated area.

The Appraiser must review the FEMA FIRM to determine if a Property is located within a CBRS. The FIRM will identify CBRS boundaries through patterns of backward-slanting diagonal lines, both solid and broken. If it appears that the Property is located in a CBRS, the Appraiser must review CBRS location maps to confirm.

(K) Lava Zones

When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) Lava Flow Hazard Zone maps. The Appraiser must notify CMS of the deficiency of MPR or MPS if the Property is located in Zones 1 or 2.

The Appraiser must report in the “Comments” section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.

(L) Mineral, Oil, and Gas Reservations or Leases

The Appraiser must analyze and report the degree to which the residential benefits may be impaired or the Property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The Appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- the hazards, nuisances, or damages that may arise or accrue to the subject Property from exercise of reservation or lease privileges on neighboring properties.

(M) Soil Contamination

(1) Definition

Soil Contamination refers to the presence of manmade chemicals or other alterations to the natural soil environment.

(2) Standard

Conditions that indicate Soil Contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors.

(3) Required Analysis and Reporting

The Appraiser must check readily observable evidence of Soil Contamination and hazardous substances in the soil. The Appraiser must report the proximity to dumps, landfills, industrial sites or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject Property.

(N) Residential Underground Storage Tanks

The Appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or onsite contamination, the Appraiser must make a requirement for further inspection.

v. New Construction Site Analysis

The Appraiser must obtain a fully executed form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 Days prior to the date the appraisal was ordered, before performing the appraisal on Proposed Construction, Properties Under Construction or Properties Existing Less than One Year.

The Appraiser must review the form and analyze and report any discrepancies between the information provided by the builder and the Appraiser's observations.

vi. Excess and Surplus Land

(A) Definition

Excess Land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the Excess Land may or may not be the same as the highest and best use of the improved parcel. Excess Land may have the potential to be sold separately.

Surplus Land refers to land that is not currently needed to support the existing improvement but cannot be separated from the Property and sold off. Surplus Land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

(B) Required Analysis and Reporting

The Appraiser must include the highest and best use analysis in the appraisal report to support the Appraiser's conclusion of the existence of Excess Land. The Appraiser must include Surplus Land in the valuation.

If the subject of an appraisal contains two or more legally conforming platted lots under one legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is Excess Land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the Appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

vii. Characteristics of Property Improvements

(A) Requirements for Living Unit

The Appraiser must notify CMS of the deficiency of MPR or MPS if each living unit does not contain any one of the following:

- a continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- sanitary facilities and a safe method of sewage disposal. Every living unit must have at least one bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- adequate space for healthful and comfortable living conditions;
- heating adequate for healthful and comfortable living conditions;
- domestic hot water; or
- electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units. For Manufactured Housing requirements, see the [Manufactured Housing](#) section.

(B) Access to Living Unit

The Appraiser must notify CMS of the deficiency of MPR or MPS if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

For attached dwellings, the access may be by means of alley, Easement, common area or passage through the dwelling.

The Appraiser must report when the Property has security bars on bedroom windows or doors.

CMS requires that security bars have a quick release function, or other adequate egress from each room.

(C) Non-Standard House Styles

(1) Definition

Non-Standard House Style refers to unique Properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower than normal ceiling heights, and other houses that in the Appraiser's professional opinion, are unique.

(2) Required Analysis and Reporting

The Appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a Property to be fully marketable, the Appraiser must demonstrate that it is located in an area of other similar types of construction and blend in with the landscape.

The Appraiser may require additional education, experience, or assistance for these types of Properties.

(D) Modular Housing

(1) Definition

Modular Housing refers to Structures constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house. Although quality can vary, all of the materials – from framing, roofing and plumbing to cabinetry, interior finish and electrical – are identical to what is found in comparable quality conventional “stick-built” housing.

(2) Required Analysis and Reporting

The Appraiser must treat Modular Housing the same as stick-built housing, including reporting the appraisal on the same form. The Appraiser must select and analyze appropriate comparable sales, which may include conventionally built housing, Modular Housing or Manufactured Housing.

(E) Identifying an Accessory Dwelling Unit

(1) Definition

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.

(2) Required Analysis and Reporting

HUD permits ADUs as long as the total number of units is four (4) or less. The Appraiser must perform a full inspection, verify the construction is legal and complies with local zoning requirements and is marketable.

As part of the highest and best use analysis, the Appraiser must make the determination to classify the Property as a Single Family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will then determine the classification of the Property and the analysis and reporting required.

An ADU is usually subordinate in size, location and appearance to the primary Dwelling Unit and may or may not have separately metered utilities or separate means of ingress or egress. The Appraiser must not include the living area of the ADU in the calculation of the Gross Living Area (GLA) of the primary dwelling.

The Appraiser must notify CMS of the deficiency in MPR or MPS if more than one ADU is located on the subject Property.

If the ADU or living unit distinction is in question by the D.E. Underwriter, CMS will require a detailed explanation of the appraiser's highest and best use analysis.

(F) Additional Manufactured Home on Property

Accessory Dwelling Units (ADU)

The Appraiser may consider a Manufactured Home to be an ADU if it meets the highest and best use and FHA requirements.

CMS will permit a manufactured ADU. Follow HUD requirements. The appraiser will determine highest and best use.

The appraisal must contain at least two comps with similar manufactured ADU. The manufactured ADU must meet all CMS, and FHA manufactured housing requirements. The appraiser must provide all manufactured housing information including make, model, year built, certification label, and data plate information. An engineer's cert will be required.

Storage Units

The Appraiser may value a Manufactured Home on the Property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

A second Manufactured Home is permitted provided it is being used as a storage building, the kitchen is rendered inoperable and the utilities are disconnected.

If the appraiser determines the unit is storage, CMS will require an interior photo confirmation.

(G) Leased Equipment, Components, and Mechanical Systems

The Appraiser must not include the value of leased mechanical systems and components in the Market Value of the subject Property. This includes furnaces, water heaters, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the property owner. The Appraiser must identify such systems in the appraisal report.

d. Gross Living Area

i. Definition

Gross Living Area (GLA) refers to the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure. It includes only finished, habitable, above-grade living space.

ii. Required Analysis and Reporting

The Appraiser must:

- identify non-contiguous living area and analyze its effect on functional utility;
- ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- use the same measurement techniques for the subject and comparable sales, and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

In the case of non-standard Properties and floor plans, the Appraiser must observe, analyze, and report the market expectations and reactions to the unique Property.

iii. Additions and Converted Space

The Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.

Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA. The Appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as Contributory Value, if any.

The Appraiser must analyze and report differences in functional utility when selecting comparable properties of similar total GLA that do not include converted living space. If the Appraiser chooses to include converted living spaces as GLA, the Appraiser must include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction.

Alternatively, the Appraiser may consider and analyze converted living spaces on a separate line within the sales comparison grid including the functional utility line in order to demonstrate market reaction.

The Appraiser must not add an ADU or secondary living area to the GLA.

iv. Partially Below-Grade Habitable Space

(A) Definition

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

(B) Required Analysis and Reporting

The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.

Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.

v. Bedrooms

The Appraiser must not identify a room as a bedroom that cannot accommodate ingress or egress in the event of an emergency, regardless of location above or below grade.

e. Appliances

i. Definition

Real Property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

If an appliance is missing or non-operational, the appraiser must make a comment indicating whether he determined the appliance to be real property or personal property. If real property; the underwriter must condition for the appliance to be installed, and/or operational.

ii. Standard

Cabinets and built-in appliances that are considered Real Property must be present and operational.

iii. Required Analysis and Reporting

The Appraiser must note appliances present in the house at the time of observation and indicate whether that appliance is considered Personal Property or Real Property. The Appraiser must operate all conveyed appliances and observe their performance.

The Appraiser must notify CMS of the deficiency of MPR or MPS if any conveyed appliances are inoperable.

f. Swimming Pools

The Appraiser must report readily observable defects in a non-covered pool that would render the pool inoperable or unusable. If the pool water contains **minor** algae and is aesthetically unappealing, but the Appraiser has no evidence that the pool is otherwise contaminated, no cleaning is required. Swimming pools **must** be operational to provide full Contributory Value.

The Appraiser must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines, and the surrounding land re-graded if necessary.

If the swimming pool has been winterized, or the Appraiser cannot determine if the pool is in working order, the Appraiser must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to full operating condition at normal costs.

The D.E. Underwriter must confirm that the pool is gated to any exterior access.

- rear yard fencing is acceptable;
- separate interior gate is not required unless called out by the appraiser as a local requirement

g. Utilities – Mechanical Components

The Appraiser must notify CMS of the deficiency of MPR or MPS if mechanical systems are not safe to operate; not protected from destructive elements; do not have reasonable future utility, durability and economy; or do not have adequate capacity.

The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance.

If the systems are damaged or do not function properly, the Appraiser must condition the appraisal on its repair or further inspection.

If the Property is vacant, the Appraiser must note in the report whether the utilities were on or off at the time of the appraisal.

If the utilities are off at the time of the inspection, the Appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the Appraiser must:

1. render the appraisal as subject to re-observation;
2. condition the appraisal upon further observation to determine if the systems are in proper working order once the utilities are restored; and
3. complete the appraisal under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

The Appraiser must note that the re-observation may result in additional repair requirements once all the utilities are on and fully functional.

If systems could not be operated due to weather conditions, the Appraiser must clearly note this in the report. The Appraiser should not operate the systems if doing so may damage equipment or when outside temperatures will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the Appraiser cannot determine if one or all of these systems are working properly.

i. Heating and Cooling Systems

The Appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of design, fuel or heat source.

The Appraiser must notify CMS of the deficiency of MPR or MPS if the permanently installed heating system does not:

- automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;
- provide healthful and comfortable heat or is not safe to operate;
- rely upon a fuel source that is readily obtainable within the subject's geographic area;
- have market acceptance within the subject's marketplace; and
- operate without human intervention for extended periods of time.

Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the Appraiser must indicate the level of deferred maintenance, analyze and report the effect on marketability, and include the cost to cure.

ii. Electrical System

The Appraiser must notify CMS of the deficiency of MPR or MPS if the electrical system is not adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.

The Appraiser must examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amperage and panel size appears inadequate for the Property. The Appraiser must operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. The Appraiser is not required to insert any tool, probe or testing device inside the electrical panel or to dismantle any electrical device or control.

iii. Plumbing System

The Appraiser must notify CMS of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.

The Appraiser must flush the toilets and operate a sample of faucets to check water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there is no readily observable evidence of leaks or structural damage under fixtures.

The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.

If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are deficiencies, the Appraiser must require repair or further inspection.

h. Roof Covering

The Appraiser must notify CMS of the deficiency of MPR or MPS if the roof covering does not prevent entrance of moisture or provide reasonable future utility, durability and economy of maintenance and does not have a remaining physical life of at least two (2) years.

The Appraiser must observe the roof to determine whether there are deficiencies that present a health and safety hazard or do not allow for reasonable future utility. The Appraiser must identify the roofing material type and the condition observed in the “Improvements” section of the report.

The Appraiser must report if the roof has less than two (2) years of remaining life, and make the appraisal subject to inspection by a professional roofer.

When the Appraiser is unable to view the roof, the Appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

i. Structural Conditions

The Appraiser must report on structural conditions so that CMS can determine if the foundation and Structure of the Property will be serviceable for the life of the Mortgage.

The Appraiser must perform a visual observation of the foundation and Structure of the improvements and report those results. If the Appraiser notes any structural issues, the Appraiser must address the nature of the deficiency in the appraisal where physical deficiencies or adverse conditions are reported and require inspection.

j. Defective Paint

If the dwelling or related improvements were built **in or** after 1978, the Appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements.

If the dwelling or related improvements were built on or before December 31, 1978, refer to the section on [Lead-Based Paint](#).

k. Attic Observation Requirements

The Appraiser must observe the interiors of all attic spaces.

The Appraiser is not required to disturb insulation, move personal items, furniture, equipment or debris that obstructs access or visibility. If unable to view the area safely in their entirety, the Appraiser must contact CMS and reschedule a time when a complete visual observation can be performed, or complete the appraisal subject to inspection by a qualified third party. In cases where access through a scuttle is limited and the Appraiser cannot fully enter the attic, the insertion of at least the head and shoulders of the Appraiser will suffice.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the Appraiser must report this condition, and render the appraisal subject to inspection and repairs if necessary.

If there is no access or scuttle, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

An observation performed in accordance with these guidelines is visual and is not technically exhaustive.

I. Foundation

The Appraiser must examine the foundation for readily observable evidence of safety or structural deficiencies that may require repair. If a deficiency is noted, the Appraiser must describe the nature of the deficiency and report necessary repairs, alterations or required inspections in the appraisal where physical deficiencies or adverse conditions are reported.

For [Manufactured Housing](#), the appraisal must be conditioned upon the certification of an engineer or architect that the foundation is in compliance with the Permanent Foundations Guide for Manufactured Housing (PFGMH).

i. Basement

The Appraiser must notify CMS of the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the Structure.

ii. Sump Pumps

The Appraiser must notify CMS of the deficiency of MPR or MPS if the sump pump is not properly functioning at the time of appraisal. A sump pump may be hardwired by an acceptable wiring method or may have a factory electrical cord that is to be connected to a receptacle suitable for such use.

m. Crawl Space Observation Requirements

The Appraiser must visually observe all areas of the crawl space and notify CMS of the deficiency of MPR and MPS when the crawl space does not satisfy any of the following criteria:

- The floor joists must be sufficiently above ground level to provide access for maintaining and repairing ductwork and plumbing.
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists.
- The crawl space must be properly vented unless the area is mechanically conditioned.
- The crawl space must be free of trash, debris, and vermin.
- The crawl space must not be excessively damp and must not have any water pooling.

If moisture problems are evident, a vapor barrier and/or prevention of water infiltration must be required.

The Appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness and security of the Property.

In cases where access through a scuttle is limited, and the Appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulders of the Appraiser will suffice. If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained subflooring or smell of mold), the Appraiser must report this condition and CMS must have a qualified third party perform an inspection.

If there is no access, the Appraiser must report the lack of accessibility to the area in the appraisal report. There is no requirement to cut open walls, ceilings or floors.

Not all houses (especially historic houses) with a vacant area beneath the flooring are considered to have a crawl space; it may be an intentional void, with no mechanical systems and no intention or reason for access.

n. Environmental and Safety Hazards

The Appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the Property's ability to serve as collateral, and the structural soundness of the improvements.

Environmental and safety hazards may include defective lead-based paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the Structure from soil or other differential ground movements, subsidence, flood, and other hazards.

i. Lead-Based Paint

(A) Improvements Built Before 1978

The Appraiser must note the condition and location of all defective paint and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements. The Appraiser must observe all interior and exterior surfaces, including common areas, stairs, deck, porch, railings, windows and doors, for defective paint (cracking, scaling, chipping, peeling, or loose). Exterior surfaces include those surfaces on fences, detached garages, storage sheds, and other outbuildings and appurtenant Structures.

(B) Condominium Units Built Before 1978

The Appraiser must observe the interior of the unit, common unit and exterior surfaces and appurtenant Structures of the specific unit being appraised; and address the overall condition, maintenance and appearance of the Condominium Project. The Appraiser must note the condition and location of all defective paint in the unit, common area and exterior, and require repair in compliance with 24 CFR § 200.810(c) and any applicable EPA requirements.

ii. Methamphetamine Contaminated Property

If CMS notifies the Appraiser or the Appraiser has evidence that a Property is contaminated by the presence of methamphetamine (meth), either by its manufacture or by consumption, the Appraiser must render the appraisal subject to the Property being certified safe for habitation.

If the effective date of the appraisal is prior to certification that the Property (site and dwelling) is safe for habitation, the Appraiser will complete the appraisal subject to certification that the Property is safe for habitation.

If the effective date of the appraisal is after certification that the Property (site and dwelling) is safe for habitation, and CMS has provided a copy of the certification by the certified hygienist, the Appraiser must include a copy of the certification in the appraisal report.

The Appraiser must analyze and report any long-term stigma caused by the Property's contamination by meth and the impact on value or marketability.

iii. Wood Destroying Insects/Organisms/Termites

The Appraiser must observe the foundation and perimeter of the buildings for evidence of wood destroying pests. The Appraiser's observation is not required to be at the same level as a qualified pest control specialist.

If there is evidence or notification of infestation, including a prior treatment, the Appraiser must mark the evidence of infestation box in the "Improvements" section of the appraisal and make the appraisal subject to inspection by a qualified pest control specialist.

o. Repair Requirements

When examination of New or Existing Construction reveals non-compliance with MPR and MPS, the Appraiser must report the repairs necessary to make the Property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for the required repairs.

If compliance can only be effected by major repairs or alterations, the Appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal, within the reporting form.

Regardless of the Appraiser's suggested repairs, CMS will determine which repairs are required.

i. Limited Required Repairs

The Appraiser must limit required repairs to those repairs necessary to:

- maintain the safety, security and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

ii. As-Is Condition and Cosmetic Repairs

The Appraiser may complete an as-is appraisal for existing Properties when minor property deficiencies, which generally result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the Property. Cosmetic or minor repairs are not required, but the Appraiser must report and consider them in the overall condition when rating and valuing the Property. Cosmetic repairs include missing handrails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser's professional judgment do not pose a health and safety issue to the occupants of the house.

If an element is functioning well but has not reached the end of its useful life, the Appraiser should not recommend replacement because of age.

iii. Defective Conditions Requiring Repair

The nature and degree of any noted deficiency will determine whether the Appraiser must address the deficiency in the narrative comments area of the report under "condition of the property" or "physical deficiencies" affecting livability or structural soundness.

iv. Conditions Requiring Inspection by a Qualified Individual or Entity

The Appraiser must notify CMS and make the appraisal subject to an inspection by a qualified individual or Entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the Appraiser's ability to assess. The Appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair.

p. Utility Services

i. Definition

Utility Services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone.

ii. Required Analysis and Reporting

The Appraiser must notify CMS of the deficiency of MPR or MPS if the subject Property is an attached, detached, or manufactured Single Family dwelling and the utilities are not independent for each living unit. This does not apply to ADUs. The Appraiser must also notify CMS of the deficiency of MPR or MPS if utilities are not located on Easements that have been permanently dedicated to the local government or appropriate public utility body.

If appraiser notes a deficiency for easements, UW must verify with title that the easement is recorded.

(A) Living Units Under Single Ownership

The Appraiser should not note a deficiency of MPR or MPS if the Property contains multiple living units under a single Mortgage or ownership (two- to four-family Properties) that utilize common services, such as water, sewer, gas and electricity and is served by one meter in jurisdictions that allow single meter rental properties, unless separate utility service shut-offs are not provided for each.

The Appraiser must notify CMS of the deficiency of MPR or MPS if other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single Mortgage.

(B) Living Units Under Separate Ownership

The Appraiser should not note the deficiency of MPR or MPS if the Property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an Easement or covenant and maintenance agreement, unless individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities.

If a single drain line in the building serves more than one unit, and the building drain clean-outs are not accessible from the exterior, the Appraiser must note the deficiency of MPR or MPS to CMS.

iii. Public Water Supply Systems

(A) Definition

A Public Water Supply System refers to a system that is owned by a governmental authority or by a utility company that is controlled by a governmental authority.

(B) Standard

When a public water supply system is present, the water quality is considered to be safe and potable and to meet the requirements of the health authority with jurisdiction unless:

- the Appraiser indicates deficiencies with the water or notifies the Mortgagee that the water is unsafe; or
- the health authority with jurisdiction issues a public notice indicating the water is unsafe.

(C) Required Analysis and Reporting

The Appraiser must:

- report any readily observable or known deficiencies with the water;
- notify the Mortgagee when water is determined to be unsafe, report, and provide a cost to cure; and
- address any impact on value and marketability, and make the appropriate adjustments.

iv. Community Water Systems

(A) Definition

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

(B) Required Analysis and Reporting

If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

v. Individual Water Supply Systems

(A) Definition

An Individual Water Supply System refers to a potable water source providing water to an individual Property.

(B) Standard

When an Individual Water Supply System is present, water quality must meet 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.

(C) Required Analysis and Reporting

The Appraiser must report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection.

When the Appraiser obtains evidence that any of the water quality requirements are not met, the Appraiser must notify CMS and provide an estimated cost to cure.

(1) Conditions for Individual Water Supplies

The Appraiser must note the deficiency of MPR or MPS if the subject Property contains a well located within the foundation walls of an existing dwelling and there is no evidence that the local jurisdiction recognizes and permits such a location, that it is common for the market area, and does not adversely affect marketability unless the well is located within the foundation walls of a New Construction dwelling in an arctic or sub-arctic region.

The Appraiser must report when water to a Property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site. The Appraiser must report whether such systems are readily accepted by local market participants and that the water supply system may violate MPR or MPS.

The Appraiser must note the deficiency of MPR or MPS if the subject Property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point or artesian wells.

A pressure tank with a minimum capacity of 42 gallons must be provided.

However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equal or exceed that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.

(2) Required Analysis and Reporting

The Appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:

- the water supply relies upon a water purification system due to the presence of contaminants;
- corrosion of pipes (plumbing);
- areas of intensive agricultural uses within one quarter mile;
- coal mining or gas drilling operations within one quarter mile;
- a dump, junkyard, landfill, factory, gas station, or dry cleaning operation within one quarter mile; or
- an unusually objectionable taste, smell, or appearance of well water.

Refer to [Requirements for Well Water Testing](#) for additional well water testing requirements.

The Appraiser must also be familiar with the [minimum distance requirements](#) between private wells and sources of pollution and, if discernible, comment on them. The Appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building Structures but may provide estimated distances where they are comfortable doing so. When available, the Appraiser should obtain from the homeowner or CMS a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.

vi. Shared Wells

(A) Definition

A Shared Well refers to a well that services two to four homes where there is a binding [Shared Well Agreement](#) between the property owners that meets FHA requirements.

(B) Required Analysis and Reporting

If the Property has a Shared Well, the Appraiser must report it and note any readily observable deficiencies. The Appraiser must also obtain a Shared Well Agreement and include it in the appraisal report so that CMS may review the agreement to determine eligibility. The Appraiser must also require an [inspection under the same circumstances as an individual well](#).

Please note, for both proposed and existing Properties, CMS will require an attorney's opinion letter to verify the Shared Well Agreement complies with FHA requirements.

vii. Community Water Systems

(A) Definition

A Community Water System refers to a central system that is owned, operated and maintained by a private corporation or a nonprofit property owners' association.

(B) Required Analysis and Reporting

If the Property is on a Community Water System, the Appraiser must note the name of the water company on the appraisal report.

The Appraiser must report on the availability of connection to public and/or Community Water System or sewer system, and any jurisdictional conditions requiring connection.

q. Onsite Sewage Disposal Systems

i. Definition

An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of effluent on the same Property that produces the wastewater.

ii. Required Analysis and Reporting

The Appraiser must note the deficiency of MPR or MPS and notify CMS if the Property is not served by an off-site sewer system and any living unit is not provided with an Onsite Sewage Disposal System adequate to dispose of all domestic wastes in a manner that will not create a nuisance, or in any way endanger the public health.

The Appraiser must visually inspect the Onsite Sewage Disposal System and its surrounding area. The Appraiser must require an inspection to ensure that the system is in proper working order if there are readily observable signs of system failure. The Appraiser must report on the availability of public sewer to the site.

The Appraiser must note the deficiency of MPR or MPS and notify CMS if the Appraiser has evidence that the Onsite Sewage Disposal System is not sufficient.

12. Valuation and Reporting Protocols

a. Photograph, Exhibits and Map Requirements

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 Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



FHA Minimum Photograph Requirements	
Photograph Exhibit	Minimum Photograph Requirement
Subject Property Exterior	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • Front view of each comparable utilized • Photographs taken at an angle to depict both the front and the side when possible. If the appraisal does not contain side photographs, the appraiser must comment on why they were unable to take the photographs. • 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
View	<ul style="list-style-type: none"> • Photographs of any negative or positive view influences that substantially affect value or marketability
Subject Property Deficiencies	<ul style="list-style-type: none"> • Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	<ul style="list-style-type: none"> • Additional photographs of the common areas and shared amenities of the Condominium Project

b. Intended Use and Intended Users of Appraisal

The intended use of the appraisal is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage (24 CFR § 200.145(b)).

FHA and CMS are the intended users of the appraisal report.

The FHA Appraiser does not guarantee that the Property is free from defects. The appraisal establishes the value of the Property for mortgage insurance purposes only.

c. Development of the Market Value

i. Value Required

(A) Definition of Market Value

Market Value refers to the most probable price which a Property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the Property sold unaffected by special or creative financing or Sales Concessions granted by anyone associated with the sale.

Adjustments to the comparables must be made for special or creative financing or Sales Concessions. No adjustments are necessary for those costs, which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable Property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the Property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the Appraiser's judgment.

(B) Standard

The Appraiser must determine the Market Value of the subject Property.

(C) Required Analysis and Reporting

The Appraiser must analyze all data researched and collected prior to reporting the value. The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include the value of Personal Property in the appraisal.

ii. Appraisal Conditions

(A) Definition

Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the value of conclusion can be considered valid.

(B) Standard

Conclusions about the observed conditions of the Property provide the rationale for the opinion of Market Value.

The completed appraisal form, together with the required exhibits, constitutes the reporting instrument for FHA-insured Mortgages. Conditions of the Property, mortgage type and the market will determine if the appraisal is to be performed as-is, or if the value opinion needs to be conditioned upon an extraordinary assumption(s), a hypothetical condition(s), subject to an additional inspection, or completion of construction, repairs or alterations.

(C) Required Analysis and Reporting

The Appraiser must state in the appraisal report whether repairs, alterations or inspections are necessary to eliminate conditions threatening the continued use, security, and marketability of the Property.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



The following table illustrates property conditions under which an Appraisal Condition must be made.

Report Conclusion	Appraisal Condition
1. There is/are no repair(s), alteration(s) or inspection condition(s) noted by the Appraiser. 2. Establishing the As-Is Value for a 203(k). 3. The Property is being recommended for rejection. 4. Intended use is for Pre-Foreclosure Sale (PFS) in accordance with 24 CFR § 203.370 or Claims Without Conveyance of Title (CWCOT) @ 24 CFR § 203.368. 5. Intended use is for Real Estate Owned (REO) in accordance with 24 CFR § 291.100.	"As-is"
1. Proposed Construction where construction has not started. 2. Under Construction but not yet complete (less than 90%). 3. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work.	"Subject to completion per plans and specifications"
1. Repair or Alteration Condition(s) noted by the Appraiser to: <ul style="list-style-type: none"> • protect the health and safety of the occupants; • protect the security of the Property; • correct physical deficiencies or conditions affecting structural integrity. 2. Certain Section 203(k) Rehabilitation Mortgages depending on scope of work. 3. Under Construction, more than 90% or more complete with only minor finish work remaining (buyer preference items e.g., floor coverings, appliances, fixtures, landscaping, etc.). This eliminates the need for plans and specifications.	"Subject to the following repairs or alterations"
Required inspection(s) to meet HUD's Minimum Property Requirements and Minimum Property Standards as noted by the Appraiser.	"Subject to the following required inspection"

When New Construction is less than 90 percent complete at the time of the appraisal, the Appraiser must document the floor plan, plot plan, and exhibits necessary to determine the size and level of finish.

When New Construction is 90 percent or more complete, the Appraiser must document a list of components to be installed or completed after the date of appraisal.

iii. Valuation Development

(A) Standard

There are three valuation approaches as applied to one-to four-residential unit Properties:

- sales comparison approach;
- cost approach; and
- income approach to value.

(B) Required Analysis and Reporting

The Appraiser must obtain credible and verifiable data to support the application of the three approaches to value.

The Appraiser must perform a thorough analysis of the characteristics of the market, including the supply of properties that would compete with the subject and the corresponding demand.

The Appraiser must perform a highest and best use of the Property, using all four tests and report the results of that analysis.

(C) FHA Data Requirements for the Subject and Comparable Properties

The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, CMS, or other parties with relevant information. If the sale cannot be verified by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.

(D) Effective Age and Remaining Economic Life

(1) Standard

The effective age reflects the condition of a Property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant difference between the actual and effective ages requires an explanation.

(2) Required Analysis and Reporting

The Appraiser must state the remaining economic life as a single number or as a range for all property types, including condominiums. The Appraiser must provide an explanation if the remaining economic life is less than 30 years.

The Appraiser must apply the appropriate technique to estimate the economic life of the subject and not just report a number without analysis.

(E) Approaches to Value

The Appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant.

If all approaches to value are not completed, the appraiser must comment as to why he did not consider it relevant.

(1) Cost Approach to Value

The Appraiser may use any of the credible and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other credible source that can be duplicated by the reader).

If the Appraiser uses cost estimates provided by the contractor or builder of the Property, the cost estimates must be reasonable and independently verified.

(a) Land Valuation

(i) Standard

If the cost approach is applicable, the Appraiser must estimate the site value. Acceptable methodology used to estimate land value include sales comparison, allocation, and extraction.

(ii) Required Analysis and Reporting

The Appraiser must include a summary of the supporting documentation and analysis in the appraisal. The Appraiser must maintain comparable land sales data and analysis or other supporting information in the Appraiser's file and include it by reference in the appraisal. For [Properties with Excess Land](#), the Appraiser must include all comparable land sale data and analysis in the report.

(b) Estimate of Cost New for Housing

(i) Standard

The Appraiser may use either the replacement cost or the reproduction cost.

(ii) Required Analysis and Reporting

The Appraiser must state the method used and the source of the data.

The Appraiser must use the current version of a published cost data source recognized by the industry. The Appraiser must report the quality rating selected and utilized, as well as identify the source of the data, and its publication and/or effective date. The Appraiser is expected to be aware of local cost data from builders, contractors, building supply firms, and other building industry participants as a check against the published cost data.

The Appraiser must also provide a supporting explanation when applying adjustments to the published cost data, such as adjustments for:

- transportation and labor in remote areas;
- entrepreneurial profit; or
- fees and charges unique to the area.

Specific requirements for the cost approach as applied to Manufactured Homes are addressed in the FHA Single Family Housing Appraisal Report and Data Delivery Guide - Manufactured Home Appraisal Report.

(2) Income Approach to Value for Residential Properties

(a) Standard

The Appraiser should apply the income approach to a Single Family residential Property when there is evidence of recently rented and then sold data pairs.

The Appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restrictions. If comparable sales do not have rent control restrictions similar to those of the subject, an appropriate adjustment should be applied.

(b) Required Analysis and Reporting

The Appraiser must analyze rental data and provide support for the estimated market rents and adjustments applied to the comparable rentals in the reconciliation of this approach.

The Appraiser must derive the Gross Rent Multiplier (GRM) factor from market data and support it prior to applying it to the market rent for the subject.

(3) Sales Comparison Approach

(a) Standard

The sales comparison approach is required for all appraisals.

(b) Required Analysis and Reporting

The Appraiser must present the data, points of comparison, and analysis; provide support for the Appraiser's choice of comparable properties, and the adjustments for dissimilarities to the subject; and include sufficient description and explanation to support the facts, analyses and the Appraiser's conclusion.

If the data from the market area is insufficient to support some of these requirements, the Appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached and the steps taken by the Appraiser to attempt to meet the guidelines.

(c) Comparable Sale Selection

(i) Characteristics of the Property

Comparable sale selection must be based on properties having the same or similar locational characteristics, physical characteristics and the priority the market assigns to each factor, including:

- site;
- site view;
- location;
- design;
- appeal;
- style;
- age;
- size;
- utility;
- quality;
- condition; and
- any other factor that in the Appraiser's professional judgment is recognized as relevant in the subject market.

(ii) Characteristics of the Transaction

Definition

An Arm's Length Transaction refers to a transaction between unrelated parties and meets the requirements of Market Value.

Standard

The Appraiser must utilize Arm's Length Transactions for comparable properties except when there is evidence that REO sales or short sale/Pre-Foreclosure Sale (PFS) transactions are so prevalent that normal Arm's Length Transactions are not present or supported by the market trend.

A transaction involving a foreclosure transfer to a mortgagee is not evidence of the Market Value, and is not a valid type of comparable sale for an FHA-insured Mortgage.

The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an Arm's Length Transaction:

- REO sale – transfer from mortgagee to new owner;
- short sale/PFS;
- estate sale;
- court ordered sale;
- relocation sale; and
- flip transactions.

Required Analysis and Reporting

The Appraiser must include as many comparable properties as are necessary to support the Appraiser's analysis and conclusion. At a minimum, the Appraiser must include the most recent and relevant sales, preferably within the last six months. The Appraiser must include at least three sales that settled no longer than 12 months prior to the effective date of the appraisal. The Appraiser must provide additional support by including more sales, offerings, offerings now under contract, or relevant sales that settled more than 12 months prior to the effective date of the appraisal.

The Appraiser must analyze the whole market, including when there are a number of sales that may or may not be classified as arm's length sales or may not be classified as directly similar to the Property.

(d) Adjusting Comparable Properties

(i) Standard

Calculation of the Contributory Value includes methods based on the:

- direct sales comparison approach;
- cost approach; and
- income approach.

(ii) Required Analysis and Reporting

The Appraiser must apply all appropriate techniques and methods, conduct an analysis, and report the results. The Appraiser must include the reasoning that supports the analyses, opinions, and conclusions in the report.

(e) Comparable Selection in Diverse Real Estate Markets

(i) Standard

Comparable sales should be selected based on similar locational and physical characteristics, not sales price.

Subdivisions, Condominiums or Planned Unit Development Projects

Arm's length resale activity from within the established subdivision, condominium or PUD project is often the best indicator of value.

(ii) Required Analysis and Reporting

The Appraiser must include an analysis of the comparable properties that includes an explanation. The analysis must reflect typical Borrower expectations and behavior.

Subdivisions, Condominiums or Planned Unit Development Projects

If the Appraiser uses sales of comparable properties that are located outside of the subject's subdivision or project, the analysis must reflect typical Borrower expectations and behavior.

For Properties in new subdivisions, or units in new (or recently converted) Condominium Projects, the Appraiser must include, for comparison, properties in the subject market area as well as properties within the subject subdivision or project. Whenever possible, the Appraiser must select at least one sale from a competing subdivision or project and one sale from within the subject subdivision or project so that this market acceptance may be directly compared. If the new project is mature enough to have experienced arm's length re-sales, the Appraiser must also analyze and report those properties.

(f) Comparable Sale Selection in Rural and Slow Growth Markets

If insufficient comparable sales have occurred within the previous six months, the Appraiser must include at least three sales that occurred less than 12 months prior to the date of appraisal.

Where there is a scarcity of recent comparable sales data, the Appraiser may include sales older than 12 months as additional sales in markets. The Appraiser must report the most recent and relevant sales, and include a thorough explanation of the market conditions, the levels of supply and demand, and a reason for the lack of recent sales data.

(g) Sales Concessions

(i) Definition

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, or special financing incentives.

(ii) Standard

Adjustments are not calculated on a dollar for dollar cost of the financing or Sales Concession. However, the dollar amount of any adjustment should approximate the market's reaction to the Sales Concessions based on the Appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the Sales Concessions, and what the Property would have sold for without the concessions under typical market conditions.

(iii) Required Analysis and Reporting

The Appraiser must verify all comparable sales transactions for Sales Concessions and report those findings in the appraisal. The Appraiser must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one of their representatives), the Appraiser must report the lack of verification.

The Appraiser must make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price. The Sales Concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The Appraiser must include an explanation of the effect of the Sales Concessions on the sale price of the comparable.

(h) Bracketing

(i) Definition

Bracketing refers to selecting comparable properties with features that are superior to and inferior to the subject features.

(ii) Standard

Comparable properties must be selected based on the principle of substitution, and the analysis will reveal the relevance of that data.

Comparable properties should not be chosen only because their prices bracket a desired or estimated value.

(iii) Required Analysis and Reporting

In analyzing the comparable pool to determine the best comparable sales to display and compare in the adjustment grid, the Appraiser must use Bracketing techniques when possible and appropriate.

(i) Market Condition (Time) Adjustments

(i) Definition

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

(ii) Standard

Within the sales adjustment grid, the potentially comparable properties may be adjusted if they were contracted for sale during a market period different from that of the date of valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation.

(iii) Required Analysis and Reporting

The Appraiser must provide a summary comment and support for all conclusions relating to the trend of the current market.

(F) FHA Appraisal Requirements in Changing Markets

(1) Standard

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The final conclusion must be based on the reconciliation of all data.

(a) Increasing Markets

In an increasing market, positive Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(b) Declining Markets

Although there is no standard industry definition, for purposes of performing appraisals of Properties that are to be collateral for FHA-insured Mortgages, a Declining Market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory and extended marketing times. Generally, a trend in the housing market is identifiable when it extends for a period of at least six months or two quarters prior to the effective date of the appraisal.

In a Declining Market, negative Market Condition Adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.

(2) Required Analysis and Reporting

The Appraiser must accurately report market conditions and determine when housing trends are increasing, stable or declining. The Appraiser must provide a summary comment as to the continuance of the current trend or if the trend appears to be changing, and provide support for all conclusions. If the Appraiser bases the adjustment on a published source, the Appraiser must include a copy of which must be included in the addendum.

The Appraiser must include an absorption rate analysis, at least two comparable sales that closed within 90 Days prior to the effective date of the appraisal, and a minimum of two active listings or pending sales on the SCA Grid (in addition to at least three settled sales). If the Appraiser cannot comply with these requirements due to the lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current and forecasted market.

For active listings or pending sales, the Appraiser must:

- ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable properties;
- use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sale price ratios;
- include the original list price, any revised list prices, and calculate the total Days on Market (DOM). The Appraiser must provide an explanation for the DOM that does not approximate periods reported in the “Neighborhood” section of the appraisal reporting form;
- reconcile the Adjusted Values of active listings or pending sales with the Adjusted Values of the settled sales provided; and
- if the Adjusted Values of the settled comparable properties are higher than the Adjusted Values of the active listings or pending sales, determine if a Market Condition Adjustment is appropriate.

(G) Final Reconciliation and Conclusion

(1) Definition

Final Reconciliation refers to the process by which an Appraiser evaluates and selects from among alternative conclusions to reach a final value estimate, and reports the results of the analysis.

(2) Standard

After the approaches to value are completed, the Appraiser must check the data, calculations and conclusions. The Appraiser must reconcile each approach to value, and must reconcile all approaches into a final estimate of value for the Property.

(3) Required Analysis and Reporting

If the appraisal has no conditions, the Appraiser must render an as-is value opinion.

If the Appraiser must conclude the report under a hypothetical condition or extraordinary assumption, the Appraiser must report the issues and requirements as one of the following:

- “subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed;”
- “subject to the following repairs or alterations (list them) on the basis of a hypothetical condition that the repairs or alterations have been completed;” or
- “subject to a required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.”

(H) Signature

(1) Standard

The FHA Roster Appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the FHA Roster Appraiser. A trainee or licensee may accompany the FHA Roster Appraiser on the observations but may not perform the observations in place of the FHA Roster Appraiser.

The FHA Roster Appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. The FHA Roster Appraiser must also inspect the subject Property and at least the exterior of the comparable properties.

(2) Required Analysis and Reporting

If another appraiser or trainee appraiser provided assistance or participated in the preparation of the appraisal, the FHA Roster Appraiser must disclose the name of the appraiser or trainee appraiser in the report and their role in developing the appraisal.

13. Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages

a. Definitions

Manufactured Housing refers to Structures that are transportable in one or more sections.

They are designed to be used as a dwelling when connected to the required utilities, which include the plumbing, heating, air-conditioning and electrical systems contained therein.

Manufactured Housing is designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed HUD Certification Label. Manufactured Housing may also be referred to as mobile housing, sectionals, multi-sectionals, double-wide, triple-wide or single-wide.

A Manufactured Home refers to a single dwelling unit of Manufactured Housing.

b. Standard

The Appraiser must notify CMS and report a deficiency of MPR or MPS if a Manufactured Home does not comply with the following:

- have a floor area of not less than 400 square feet;
- was constructed on or after June 15, 1976, in conformance with the federal MHCSS, as evidenced by an affixed HUD Certification Label in accordance with 24 CFR § 3280.11 (Manufactured Homes produced prior to that date are ineligible for insured financing);
- The Manufactured Home and site exists together as a real estate Entity in accordance with state law (but need not be treated as real estate for taxation purposes);
- was moved from the factory or dealer directly to the site;
- was designed to be used as a dwelling with a permanent foundation built to comply with the PFGMH;
- The finished grade elevation beneath the Manufactured Home or, if a basement is used, the grade beneath the basement floor is at or above the 100-year return frequency flood elevation;
- The Structure is designed for occupancy as a Principal Residence by a single family; or
- The lease meets the requirements of [Valuation of Leasehold Interests](#).

c. Foundation Systems

i. New Construction for Manufactured Housing

(A) Definition

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

(B) Standard

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be adequately secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete, masonry or treated wood) and the PFGMH for foundations.

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for New Construction, the Appraiser must notify CMS and report the deficiency of the MPR or MPS.

ii. Existing Construction for Manufactured Housing

(A) Definition

Existing Construction for Manufactured Housing refers to a Manufactured Home that has been permanently installed on a site for one year or more prior to the case number assignment date.

(B) Standard

If the perimeter enclosure is non-load-bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood or a product with similar strength and durability.

Skirting

Skirting refers to a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal attached to the side of the Structure, extending to the ground (generally, not installed below frost depth).

(C) Required Analysis and Reporting

If the Manufactured Home foundation does not meet the requirements for Existing Construction, the Appraiser must notify CMS and report the deficiency in the MPR or MPS.

d. Running Gear

i. Definition

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads.

ii. Standard

The towing hitch and Running Gear must be removed.

iii. Required Analysis and Reporting

The Appraiser must notify CMS and report deficiency of MPR or MPS if the Running Gear or towing hitch are still attached to the Manufactured Housing unit.

e. Perimeter Enclosure

i. Standard

The space beneath Manufactured Homes must be properly enclosed. The perimeter enclosure must be a continuous wall that is adequately secured to the perimeter of the unit and allows for proper ventilation of the crawl space.

ii. Required Analysis and Reporting

The Appraiser must notify CMS and report a deficiency of MPR or MPS if the Manufactured Housing unit is not properly enclosed. The Appraiser must call for repairs or further inspection, if warranted.

f. HUD Certification Label

i. Definition

HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four inch aluminum plate permanently attached to Manufactured Housing.

ii. Standard

Manufactured Homes must have an affixed HUD Certification Label located at one end of each section of the house, approximately one foot up from the floor and one foot in from the road side, or as near that location on a permanent part of the exterior of the house as practicable. Etched on the HUD Certification Label is the certification label number, also referred to as the HUD label number. Label numbers are not required to be sequential on a multi-section house.

iii. Required Analysis and Reporting

The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is covered, illegible, or missing or that the Appraiser was unable to locate it.

g. Data Plate

i. Definition

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

ii. Standard

Manufactured Homes have a Data Plate affixed in a permanent manner, typically adjacent to the electric service panel, the utility room or within a cabinet in the kitchen.

iii. Required Analysis and Reporting

The Appraiser must report the information on the Data Plate within the appraisal, including the manufacturer name, serial number, model and date of manufacture, as well as wind, roof load and thermal zone maps.

If the Data Plate is missing or the Appraiser is unable to locate it, the Appraiser must report this in the appraisal and is not required to secure the Data Plate information from another source.

h. Flood Zone

The Appraiser must stop work and contact CMS if the Appraiser determines that a Manufactured Home is located in FEMA Flood Zones A or V. The Appraiser may continue to work on the assignment if CMS provides a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) or flood elevation certification. If the Appraiser is provided with a LOMA or LOMR that removes the Property from the flood zone, the Appraiser does not need to indicate that the Property is in a flood zone. If provided with an elevation certificate, the Appraiser must indicate the Property is in a flood hazard area on the appraisal report.

Refer to [Eligibility for Manufactured Housing in SFHAs](#) for additional information regarding FEMA Elevation Certificates for manufactured housing in a flood zone.

i. Additions to Manufactured Housing

CMS requires that manufactured homes with acceptable alterations or additions must have marketability, “like” comparables, gross living area (GLA) and a structural engineer’s certification will be required.

If the Appraiser observes additions or structural changes to the original Manufactured Home, the Appraiser must condition the appraisal upon inspection by the state or local jurisdiction administrative agency that inspects Manufactured Housing for compliance, or a licensed structural engineer may report on the structural integrity of the manufactured dwelling and the addition if the state does not employ inspectors.

j. Measurement Protocols

The Appraiser must calculate GLA based on the overall length, including living areas and other projections that are at least seven feet in height. The Appraiser must not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements.

k. Sales Comparison Approach for Manufactured Housing

The Appraiser must include a sufficient number of sales to produce a credible value. The Appraiser must include at least two Manufactured Homes in the Sales Comparison Approach (SCA) Grid.

l. Estimate of Cost New for Manufactured Housing

The Appraiser must apply the cost approach for New Construction Manufactured Housing.

14. Condominium Projects

a. Definition

Condominium Project refers to a project in which one-family Dwelling Units are either attached, semi-detached, or detached, or are Manufactured Home units, and in which owners hold an undivided interest in Common Elements.

Common Elements refer to the Condominium Project's common areas and facilities including underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation and landscaped areas, and other elements described in the condominium declaration.

b. Standard

A Condominium Project must be on the list of [FHA-approved condominiums](#) unless it meets the definition for a Site Condominium.

For all Condominium properties, a copy of the Master Policy or a certificate showing proof of coverage for both the Homeowner's Association and the Condominium unit owner must be submitted to CMS prior to funding. Condominiums must also have an HO-6 policy covering improvements within the individual condo, which are not otherwise covered by the blanket policy. The HO-6 coverage must be for an amount that is at least 20% of the appraised value of the individual unit. The Master Policy must also contain a minimum of \$1,000,000 coverage for "Director's & Officer's" liability. Refer to the CMS [Hazard Insurance Policy](#) for additional insurance requirements.

General Project Requirements

These general requirements apply to all construction types, including Existing Construction Condominium Projects. Additional or different standards may apply for certain construction types.

To be eligible for Condominium Project Approval, the Condominium Project must:

- be primarily residential in nature and not be intended for Rental for Transient or Hotel Purposes;
- consist only of one-family Dwelling Units;
- be in full compliance with all applicable federal, state, and local laws with respect to zoning, fair housing, and accessibility;
- be complete and ready for occupancy; and
- be reviewed and approved by the local jurisdiction.

c. Required Analysis and Reporting

The Appraiser must check if the Condominium Project is on the list of FHA-approved condominiums.

d. Site Condominium

i. Definition

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:
 - consists of single family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and land;
 - does not contain any Manufactured Housing units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Manufactured Housing condominium units may not be processed as Site Condominiums.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1073/Freddie Mac Form 465, *Individual Condominium Unit Appraisal Report*.

e. Manufactured Housing Condominium Projects

i. Standard

Individual Manufactured Housing units in Condominium Projects are eligible for FHA insurance.

ii. Required Analysis and Reporting

The Appraiser must report the appraisal on Fannie Mae Form 1004C/Freddie Mac Form 70-B, *Manufactured Home Appraisal Report*.

In addition to the requirements for analysis and reporting of the Manufactured Home, the Appraiser must inspect the Condominium Project and provide the project information data as an addendum to the appraisal report. Required data includes all data elements as found in the Project Information Section of Fannie Mae Form 1073/Freddie Mac Form 465.

15. Valuation of Leasehold Interests

a. Definition

Leasehold Interest refers to real estate where the residential improvements are located on land that is subject to long-term lease from the underlying fee owner, creating a divided estate in the Property.

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

b. Standard

Eligible Leasehold terms must meet the requirements included in [Leasehold Interest](#).

c. Required Analysis and Reporting

The Appraiser must obtain a copy of the lease from CMS. The Appraiser must analyze and report the terms of the ground lease, including the amount of the Ground Rent, the term of the lease, if the lease is renewable, if the lessee has the right of redemption (the right to obtain a Fee Simple title by paying the value of the Leased Fee to the lessor, thereby cancelling the Ground Rent), and if the Ground Rent can increase or decrease over the life of the lease term.

The Appraiser must estimate and report the value of the Leasehold Interest. In valuing the Leasehold Interest, the Appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its Leasehold Interest.
- In the GRM income approach, the sales used to derive the GRM factor must be based on properties under similar Ground Rent terms (or be adjusted to similar Ground Rent terms).
- In the sales comparison analysis, the comparable sales must be adjusted for their lack of similarity to the subject in the “Ownership Rights” section of the sales adjustment grid.

d. Mixed Use One- to Four-Unit Single Family Properties

i. Definition

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

ii. Required Analysis and Reporting

The Appraiser must include all components of the real estate in the analysis. The Appraiser must not include business valuation or the value of Personal Property or business fixtures in the appraisal.

The Appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the Property is allocated to residential use, and what portion is allocated to non-residential use.

The Appraiser must provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential Property.

16. Market Conditions Addendum, Fannie Mae Form 1004MC/Freddie Mac Form 71, Instructions Applicable to FHA Appraisals

a. Standard

The Appraiser must complete the Fannie Mae Form 1004MC/Freddie Mac Form 71, *Market Conditions Addendum to the Appraisal Report*, for all appraisal assignments. The analysis and valuation of FHA-insured Properties must properly analyze and address market trends in the subject's market. Whether these trends are positive, neutral or negative, proper data collection and reporting are imperative components of a complete market conditions analysis; this is most important where markets are demonstrating negative trends.

b. Required Analysis and Reporting

The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the "Neighborhood" section of the appraisal report form.

The Appraiser's analysis and conclusions must be based on the information reported on this form. The Appraiser's study of the market affecting the subject Property must include sufficient data for a statistical analysis to be relevant.

The Appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated. If any required data is unavailable or is considered unreliable, the Appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the form; if it is available, however, the Appraiser must include the data in the analysis.

If data sources provide the required information as an average instead of the median, the Appraiser must report the available figure and identify it as an average. The Appraiser must explain any anomalies in the data, such as seasonal markets, New Construction, foreclosures, etc.

17. Programs and Products

a. Standard 203(k) and Limited 203(k) Rehabilitation Mortgages

The Appraiser may be asked to perform two separate types of valuation by CMS for Standard 203(k) and Limited 203(k) Rehabilitation Mortgages. CMS may order both reports from the same Appraiser or select two different Appraisers for the two valuation assignments.

If a Mortgagee requires both an as-is and an after-improved value of the Property, the case will require two separate appraisal assignments and reports:

- an analysis to provide the as-is value; and
- a separate analysis performed under the hypothetical condition that the repairs have been completed.

i. Appraisal of the Property “As Is”

(A) Standard

Assignment conditions for this appraisal are the same as in all FHA appraisal assignments, except that the value of the Property is to be estimated “as is” even though the Property may not meet the Property Acceptability Criteria required for FHA-insured Properties.

(B) Required Analysis and Reporting

The Appraiser must provide an analysis and report of the value of the subject Property “as is.” If the Appraiser observes property conditions that do not meet the Property Acceptability Criteria, the Appraiser must report those items or conditions and note that the Property, in its “as is” condition, does not meet the Property Acceptability Criteria for an FHA-insured Mortgage. This appraisal must not be rendered “subject to repairs.”

ii. After Improved Value of the Property

(A) Definition

After Improved Value refers to the value as determined by the Appraiser based on a hypothetical condition that the repairs or alterations have been completed.

(B) Standard

The Appraiser must provide an “After Improved Value.” The Appraiser must make the appraisal “subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed.”

(C) Required Analysis and Reporting

The Appraiser must review the 203(k) Consultant’s Work Write-Up or the contractor’s proposal and Cost Estimates. The Appraiser must notify CMS of any health and safety issues in the Property that are not addressed in the Work Write-Up or proposal. When the Consultant or contractor has modified the Work Write-Up or proposal, the Appraiser must complete the appraisal based on the final Work Write-Up or the contractor’s final proposal and Cost Estimates.

The Appraiser must include the Work Write-Up or proposal as an exhibit to the appraisal report.

b. HUD Real Estate Owned Properties

i. Definition

A HUD 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 on an FHA-insured Mortgage or other means of acquisition, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to CMS.

ii. Standard

An appraisal may be ordered on a HUD REO Property as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(A) Assignment Type

Under “Assignment Type” in the “Subject” section of the appraisal reporting form, the Appraiser must mark the box labeled “other” and indicate that the Property is a HUD REO Property.

(B) Intended Use of Appraisal

The intended use of the appraisal for a HUD REO Property is as one of one or more evaluation tools to establish list price or subsequent price adjustments.

(C) Intended User

The intended user of an appraisal of a HUD REO Property is HUD/FHA or its contractors.

iii. Required Analysis and Reporting

(A) Appraiser’s Inspection

The Appraiser must inspect the interior and exterior of the Property. The Appraiser must describe any differences found between the information contained in the Property Condition Report (PCR) and the Appraiser’s observations. The Appraiser must support this description with photographs when warranted.

(B) Utilities - Mechanical Components

If the utilities are off at the time of inspection, the Appraiser must ask to have them turned on and complete all requirements under [Mechanical Components](#). However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

(C) Sales Comparison Approach, Use of Real Estate Owned Sales as Comparable Sales

When considering sales to be utilized as comparables, the Appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm’s length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate Market Value, so REO sales, short sales and other non-arm’s length transactions must not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the Appraiser must provide additional explanation and support in the “Analysis” section of the sales comparison approach.

Transfers to a Mortgagee or Entity that owns the Mortgage by deed of trust, through foreclosure sale or sheriff’s sale, are not acceptable as comparable sales.

Appraisers must exercise due diligence and care in the research and validation of REO sales to ensure similarity to the subject, especially in physical condition.

(D) Appraisal Conditions

The Appraiser must provide an analysis and report of the value of the subject Property “as is.” The appraisal report must include the applicable property specific appraisal reporting form, all required exhibits, and a copy of the PCR.

For Manufactured Housing, the Appraiser must **not** require a certification that the foundation complies with the PFGMH.

(E) Extraordinary Conditions

The as-is value can be impacted by extraordinary conditions. If the Property has an illegal use or an extraordinary condition, the Appraiser must estimate the cost to bring the Property into compliance with zoning or typical marketability. The Appraiser must report whether any grandfathered use is allowed. The Appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

(F) Statement of Insurability

The Appraiser must include a Statement of Insurability in the “Comments” section of the appraisal report.

(1) Insurable

The Appraiser must state that the Property is insurable if, at the time of the appraisal, the Property meets MPR and MPS without needing repairs.

(2) Insurable With Repair Escrow

If the Property requires no more than \$10,000 in repair, the Appraiser must state that the Property is insurable with a repair escrow.

(3) Uninsurable

If the cost of repairs is greater than \$10,000, the Appraiser must state that the Property is uninsurable.

(G) Submitting the Appraisal

The submission of the appraisal report and data is uploaded in HUD’s P260 web based internet portal or subsequent system.

The Appraiser must obtain a completed copy of the PCR from the contractor and submit the PCR with the appraisal report.

(H) Claims Without Conveyance of Title Properties

(1) Assignment Type

Under “Assignment Type” in the “Subject” section of the appraisal reporting form, the Appraiser must mark the box labeled “other” and indicate that the Property is a HUD Claims Without Conveyance of Title (CWCOT) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee’s tool for calculating the Commissioner’s Adjusted Fair Market Value (CAFMV) (24 CFR § 203.368).

(3) Intended User

FHA is the intended user of a CWCOT appraisal.

(4) Appraiser's Inspection

The Appraiser must inspect the interior and exterior of the Property. If the Appraiser cannot enter the Property, the Appraiser may perform the valuation based on an exterior-only inspection on the Fannie Mae Form 2055/Freddie Mac Form 2055, *Exterior-Only Inspection Residential Appraisal Report*, dated March 2005, or the Fannie Mae Form 1075/Freddie Mac Form 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*, for a condominium Property. The Appraiser must indicate that the Property could not be entered and identify the sources of the factual property data employed by the Appraiser in determining the value.

(5) Appraisal Conditions

CWCOT Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

(I) Pre-Foreclosure Sale Program

(1) Assignment Type

Under "Assignment Type" in the "Subject" section of the appraisal reporting form, the Appraiser must mark the box labeled "other" and indicate that the Property is a HUD Pre-Foreclosure Sale (PFS) Property.

(2) Intended Use of Appraisal

The intended use of the appraisal is to develop the as-is Market Value, which is a Mortgagee's tool for determining the list price of a HUD PFS Property (24 CFR § 203.370).

(3) Intended User

FHA is the intended user of a PFS appraisal.

(4) Sales Comparison Approach

Sales selection requirements for PFS are the same as the [sales comparison approach](#) in the REO section of these guidelines.

(5) Appraisal Conditions

PFS Properties are to be appraised "as is," in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value. The Appraiser must provide an analysis and report of the value of the subject Property "as is."

Under "Reconciliation" in the "This appraisal is made" segment, the Appraiser must mark the box labeled "as is."

iv. Appraisals for HUD Real Estate Owned Properties Purchased With a New FHA insured Mortgage (Effective for Case Numbers Assigned on or after March 14, 2016)

A new appraisal must be prepared for all transactions involving the purchase of a HUD REO Property with a new FHA-insured Mortgage. The appraisal must be prepared in accordance with the requirements of [HUD Real Estate Owned Properties](#) except as noted.

(A) Property Meets HUD's MPR

If the appraisal reveals that the Property meets HUD's MPR, the Appraiser must complete the appraisal report "as is."

(B) Property Requires Repairs

If the appraisal reveals that the Property requires repairs in order to meet HUD's MPR, the Appraiser must provide an estimate of the cost to cure and complete the report "Subject to the following repairs or alterations on the basis of the hypothetical condition that the repairs or alterations have been completed."

End of Document

18. Revision Summary

Date	Version	Description of Change
01/25/22	10.5	<ul style="list-style-type: none"> • Revised Appraiser Independence. • Revised (B) Property Types to add “see <u>Legal Restrictions on Conveyance</u> for exceptions” to properties with deed restrictions • Revised Deed-in-Lieu of Foreclosure to add Definition. • Revised Contingent Liabilities to clarify requirements when a contingent liability is created by a divorce decree or other court order. • Revised Addressing Temporary Reduction in Income to add requirements for federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events. • Revised Checking and Savings Accounts to remove documentation requirement when the borrower does not hold the account solely. • Revised Documenting the Transfer of Gifts to remove requirements when gift funds are paid directly to the settlement agent and add documentation requirements for gifts of land. • Revised Housing Obligations/Mortgage Payment History to update Definition. • Updated Energy Efficient Homes to add Standard and Required Documentation. • Revised Required Documentation for Disbursement of Mortgage Proceeds Closing Disclosure requirements. • Revised Cash-Out Refinances > Payment History Requirements. • Revised Net Tangible Benefit of Streamline Refinances and Standard for Refinances with a Term Reduction to clarify requirements for refinances with a Term Reduction of Less Than Three Years • Revised Special Documentation and Procedures for Non-Credit Qualifying Streamline Refinances to update URLA sections. • Revised Required Inspections for New Construction Financing to add qualified trades person or contractor as approved to perform final inspections. • Added Units in Condominium Project or Legal Phase (Existing Less Than One Year) requirements. • Revised Individual Owner Concentration to add Exception requirements. • Revised Single-Unit Approval > Property Eligibility requirements for Condominium Projects. • Revised Defective Paint to clarify requirements are for dwellings or related improvements were built in or after 1978. • Revised Lead-Based Paint to clarify requirements are for improvements and Condominium Units built before 1978. • Revised FHA Appraisal Requirements in Changing Markets > Required Analysis and Reporting requirements. • Revised Valuation of Leasehold Interests > Required Analysis and Reporting requirements.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
12/06/21	10.4	<ul style="list-style-type: none"> • Updated Nationwide Mortgage Limits for 2022 loan amounts. • Revised Quality of Appraisal requirements to clarify compliance with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws. • Revised Independent Verification of Non-Traditional Credit Providers to add Accounts must be active. Closed or expired accounts are not acceptable. • Revised General Appraiser Requirements to add Appraiser Conduct requirements.
11/09/21	10.3	<ul style="list-style-type: none"> • Revised Non-Permanent Residents to clarify requirements and EAD codes for refugees and Asylees. • Revised Disputed Derogatory Credit Accounts (TOTAL and Manual) to remove requirements for disputed accounts when the consumer disagrees or disputes after resolution. • Revised Derogatory Credit Accounts (Manual) to remove requirements for disputed accounts when the consumer disagrees or disputes after resolution.
10/01/21	10.2	<ul style="list-style-type: none"> • Revised Special Flood Hazard Areas. • Revised Time Restriction on Transfers of Title. • Added Accessory Dwelling Unit requirements. • Revised Condominium Unit and Site Condominiums to add Definitions and update Standard. • Revised Automated Underwriting System Data Entry Requirements > Mortgagees • Revised Employment Related Income (TOTAL) > Required Documentation • Revised Past Employment Documentation • Revised Required Documentation > Individual and Business Tax Returns and Profit & Loss Statements and Balance Sheets • Added Foster Care Payment requirements. • Revised Real Estate Tax Credits • Revised Employment Related Income (Manual) > Required Documentation > Traditional Current Employment Documentation • Revised Self-Employment Income (Manual) > Required Documentation for Profit & Loss Statements and Balance Sheets • Revised Mortgage and Note > Standard • Revised Required Documentation for Disbursement of Mortgage Proceeds • Revised 203(k) Rehabilitation Mortgage Insurance Program to add no longer offered. • Revised (2) Hazard Insurance > Standard and Required Documentation

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
10/01/21	10.2 (cont)	<ul style="list-style-type: none"> Revised Single-Unit Approval > Borrower Eligibility Revised (2) Hazard Insurance > Standard and Required Documentation Revised Fidelity Insurance > Standard Revised Party or Lot Line Wall > Required Analysis and Reporting Revised Individual Water Supply Systems > Standard Revised Appraisal Conditions > Required Analysis and Reporting Revised Sales Comparison Approach for Manufactured Housing
07/15/21	10.1	<ul style="list-style-type: none"> Revised Eligibility for Proposed or New Construction in SFHAs to add requirement that the same flood map number and Base Flood Elevation (BFE) referenced on the Flood Certification should match the Elevation Certificate. Revised Eligibility for Manufactured Housing in SFHAs to add requirements for FEMA Elevation Certificate for manufactured housing in a flood zone. Revised General Appraiser Requirements to clarify Appraiser must be a State-licensed or certified and Trainee appraisers are unacceptable to CMS.
06/23/21	10.0	<ul style="list-style-type: none"> Updated references to Letters of Explanation to clarify "Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content." Revised Student Loans > Required Documentation and Calculation of Monthly Obligation requirements.
06/01/21	9.9	Updated requirements for Permanent Residents and Non-Permanent Residents .
05/27/21	9.8	<ul style="list-style-type: none"> Updated HUD Required Flood Insurance Amount requirements. Revised Non-Traditional and Insufficient Credit (Manual) to add Underwriter responsibility. Revised Cash-Out Refinances > Required Documentation to indicate only one borrower must have occupied the primary residence.
04/02/21	9.7	Revised New Construction requirements.
02/16/21	9.6	<ul style="list-style-type: none"> Updated references for FNMA Form 1003 and FHLMC Form 65 to URLA throughout. Updated FEMA Form #81-31 to #086-0-33. Updated 4506-T to 4506-C.
01/26/21	9.5	<ul style="list-style-type: none"> Updated DACA requirements. Updated Cash-Out Refinance Transactions to clarify the requirements.
01/14/21	9.4	<ul style="list-style-type: none"> Revised Late Mortgage Payments for Purchase and No Cash-Out Refinance (TOTAL) to update HUD forbearance requirements Revised Cash-Out Refinance Transactions (TOTAL) to update HUD forbearance requirements Revised Payment History on Housing Obligations (Manual) to update HUD forbearance requirements

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
01/01/21	9.3	<ul style="list-style-type: none"> Updated Nationwide Mortgage Limits with loan limit amounts for 2021. Revised Requirements for Well Water Testing.
09/23/20	9.2	<ul style="list-style-type: none"> Revised (K) Housing Obligations/Mortgage Payment History (TOTAL) to add HUD forbearance requirements. Revised (C) Payment History on Housing Obligations (Manual) to add HUD forbearance requirements. Revised (C) Types of Refinances to add HUD modification requirements. Removed outdated Forbearance guidance. Revised Cash-Out Refinances > Payment History Requirements to add HUD modification requirements. Revised No Cash-Out Refinances > Payment History Requirements (Manually Underwritten) to add HUD modification requirements. Revised Simple Refinance > Payment History Requirements to add HUD modification requirements. Revised Streamline Refinances > Payment History Requirements to add HUD modification requirements. Revised Maximum Mortgage Calculation for Streamline Refinances to add late charges and escrow shortages to the calculation. Removed outdated Forbearance guidance.
09/02/20	9.1	<ul style="list-style-type: none"> Revised Requirements for Well Water Testing to require an attorney's opinion letter to verify the Shared Well Agreement complies with the FHA's requirements Revised Cash-Out Refinances > Occupancy Requirements to require at least one borrower to have owned and occupied the property for 12 months. Revised Shared Wells > Required Analysis and Reporting require an attorney's opinion letter to verify the Shared Well Agreement complies with the FHA's requirements
07/15/20	9.0	<ul style="list-style-type: none"> Revised Borrower Minimum Decision Credit Score to add "Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in Manual Underwriting." Revised Cash-Out Refinances > Borrower Eligibility > Occupancy Requirements to clarify only one Borrower is required to be a title-holder.
06/08/20	8.9	<ul style="list-style-type: none"> Added General Waiver of Title Objections requirements. Revised Payment History Requirements (Manually Underwritten) to add note that there may be no late payments within 12 months of the case number assignment for a cash-out transaction.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
04/15/20	8.8	<ul style="list-style-type: none"> • Revised Property Types to separate the FHA Ineligible property types from the CMS overlays for ineligible property types. • Revised Business Debt in Borrower's Name to clarify Borrower debts paid by Sole Proprietors/Schedule C businesses may not be excluded. • Added new Forbearance due to a Major Disaster section and requirements. • Revised Cash-Out Refinances > Occupancy Requirements to require ALL borrowers to have owned and occupied the property for 12 months. Previously only one borrower was required. • Revised Maximum Mortgage Calculation for Streamline Refinances to add Excess interest due to a disaster-related forbearance may not be included in the loan amount with a link to the Forbearance due to a Major Disaster section • Revised New Construction to clarify acronyms for Certificate of Occupancy (CO) and International Code Council (ICC) Residential Combination Inspector (RCI) or Combination Inspector (CI) (ICC RCI/CI panel) • Revised Modular Housing > Identifying an Accessory Dwelling Unit > Required Analysis and Reporting to add HUD requirements for a full inspection.
01/06/20	8.7	<ul style="list-style-type: none"> • Updated Nationwide Mortgage Limits with 2020 FHFA amounts • Revised Acceptable Sources of Gifts Funds (TOTAL) to remove Governmental Entities • Revised Acceptable Sources of Gifts Funds (Manual) to remove Governmental Entities • Revised Secondary Financing (Manual) CLTV Table to remove Governmental Entities • Revised Secondary Financing Provided by HUD-Approved Nonprofits (Manual) to add DPA disclaimer. • Deleted Combined Loan to Value with DPA content. • Revised Initial Draw at Closing to add permit requirements.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
11/20/19	8.6	Revised Maximum CLTV Ratio and Subordinate Financing to add Secondary Financing amount should not be listed on the HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary (LT) in cases of Streamline refinances with existing subordinate financing.
10/25/19	8.5	<ul style="list-style-type: none"> • Revised Bankruptcy (Manual) > Standard: Chapter 7 to add bankruptcy caused by extenuating circumstances beyond the Borrower's control must be approved by an Underwriter Manager or Team Lead • Added new single unit Condominium requirements. • Updated Condominium Projects – Definitions and added General Project Requirements
08/30/19	8.4	<ul style="list-style-type: none"> • Revised Cash-Out Refinance maximum LTV to 80% (effective 9/1/19 from 85%) • Revised Calculation of Effective Income for Overtime, Bonus or Tip Income.
08/20/19	8.3	<ul style="list-style-type: none"> • Revised Borrower Minimum Decision Credit Score • Revised Water Supply Systems to add Requirements for Well Water Testing • Revised Termites to add Soil poisoning is an unacceptable • Revised Tradition Credit > Requirements for the Credit Report • Revised Overtime, Bonus or Tip Income to add Tip requirements. • Revised Commission Income > Required Documentation and Calculation of Effective Income • Revised Other Sources of Effective Income > VA Disability requirements • Revised Other Sources of Effective Income > Automobile Allowances requirements • Revised Premium Pricing on FHA-Insured Mortgages • Revised Interested Party Contributions > Exceptions and Required Documentation • Revised Rent Below Fair Market • Revised Types of Payment Histories • Revised Personal Property, Sales Commission, Rent Below Fair Market • Revised Down-payment Assistance Programs to not permitted throughout (Includes Governmental Entity Funds, Charitable Organization and Federal Home Loan Bank Homeownership Set-Aside Grant Program) • Revised Required Documentation for Disbursement of Mortgage Proceeds • Revised Net Tangible Benefit of Streamline Refinances to add Reduction in Term vs No Reduction in Term requirements • Revised New Construction • Revised Building on Own Land • Revised General Appraiser Requirements • Removed Appraiser Responsibility to Report Property Compliance requirements

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
08/20/19 (cont.)	8.3 (cont.)	<ul style="list-style-type: none"> • Revised Stationary Storage Tanks • Revised Utilities – Mechanical Components • Added Public Water Supply Systems and Community Water Systems requirements • Revised Individual Water Supply Systems • Revised Photograph, Exhibits and Map Requirements to add View • Revised Development of the Market Value > Required Analysis and Reporting • Revised Estimate of Cost New for Manufactured Housing • Revised HUD Real Estate Owned Properties > Insurable With Repair Escrow and Uninsurable to increase amount from \$5K to \$10K
08/19/19	8.2	<ul style="list-style-type: none"> • Revised Maximum Mortgage Calculation for Streamline Refinances to align with HUD requirements. • Revised Collections and Charge-Offs Paid through Closing Transaction to require payoff demand or credit report or supplement.
07/25/19	8.1	<ul style="list-style-type: none"> • Revised Sales Contract and Supporting Documentation to add Property Assessed Clean Energy requirements • Revised Delinquent Federal Tax Debt to differentiate between tax lien and tax debt with no lien. • Removed IRS Lien Subordination requirements. • Revised Legal Restrictions on Conveyance (Free Assumability) to update PACE requirements • Updated Property Assessed Clean Energy (PACE) Assessments requirements. • Revised General Credit Review Requirements to restructure the requirements for non-borrowing spouse with an SSN vs. non-borrowing spouse without an SSN • Revised Calculation of Effective Income > Salary to add requirements for obtaining approval when borrower's salary • Revised Cash-Out Refinances > Borrower Eligibility > Occupancy Requirements to add LLC requirements. • Revised ARM to Fixed Rate NTB table to clarify increase in the payment amount may not exceed \$50. • Revised Employed by Family-Owned Business to remove 2-year requirement.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
06/14/19	8.0	<ul style="list-style-type: none"> • Removed CAIVRS Appeal / Suppression requirements. • Revised Manufactured Housing to remove manufactured homes with additions from the ineligible financing list. • Updated the Source Requirements for the Borrower's Minimum Required Investment requirements. • Revised the Secondary Financing documentation requirements. • Revised Non-Traditional and Insufficient Credit to indicate a combination of a credit report and independent documentation is acceptable. • Revised Payment History on Housing Obligations to add additional requirements for modifications. • Added requirements for Collections and Charge-Offs Paid through Closing Transaction • Revised Frequent Changes in Employment clarify that three job changes equals four jobs. • Revised Maximum CLTV Ratio and Subordinate Financing for Streamline refis to add Secondary Financing documentation requirements
03/29/19	7.9	<ul style="list-style-type: none"> • Revised FHA Insurance Case Binder Document Requirements to remove Evidence of 10-year Warranty Plan • Revised Gifts (Personal and Equity) (Manual) > Donor's Source of Funds to add Student Loan Funds is not an acceptable source of donor gift funds. • Revised For a Reduction in Term the Net Tangible Benefit is met if all of the following apply to clarify the remaining amortization period of the existing Mortgage is reduced by at least 6 months • Revised New Construction to remove 10-year Warranty Plan requirement • Revised Inspections or Warranties for Maximum Financing to add inspections must be performed by an International Code Council (ICC) Residential Combination Inspector (RCI) or Combination Inspector (CI) and remove FHA Roster Inspector and removed 10-year Warranty Plan requirements • Revised Required Documentation for Maximum Financing and Financing LTV Limit to remove 10-year Warranty Plan requirements • Revised Chapter 13 Bankruptcy to add Dismissed Bankruptcy requirement for two (2) year waiting period from the dismissal date.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
03/04/19	7.8	<ul style="list-style-type: none"> • Revised Borrower Authorization for Verification Information to add general Third Party Verification (TPV) definition for employment, assets and income. • Added Borrowers with Visas • Revised to Employment Related Income (TOTAL) to add Third Party Verification (TPV) definition for employment. • Revised to Employment Related Income (TOTAL) > Traditional Current Employment Documentation and Alternative Current Employment Documentation to add requirements for electronic verification of employment by a TPV vendor • Revised Employment Related Income (TOTAL) > Past Employment Documentation to add requirements for electronic verification by a TPV vendor • Revised Asset Requirements (TOTAL) > Earnest Money Deposit (TOTAL) to add requirements for electronic verification by a TPV vendor • Revised Asset Requirements (TOTAL) > Source Requirements for the Borrower's Minimum Required Investment (TOTAL) to add Third Party Verification (TPV) definition for assets. • Revised Asset Requirements (TOTAL) > Sources of Funds (TOTAL) to add Traditional Documentation with requirements for Direct verification by a TPV vendor of the Borrower's account • Revised Income Requirements (Manual) > Employment Related Income (Manual) to add Third Party Verification (TPV) definition for employment income. • Revised Income Requirements (Manual) > Employment Related Income (Manual) > Traditional Current Employment Documentation and Alternative Current Employment Documentation to add requirements for electronic verification and re-verification by a TPV vendor • Revised Income Requirements (Manual) > Employment Related Income (Manual) > Past Employment Documentation to add requirements for electronic verification by a TPV vendor • Revised Asset Requirements (Manual) to add general Third Party Verification (TPV) definition for assets • Revised Asset Requirements (Manual) > Earnest Money Deposit (TOTAL) to add requirements for electronic verification by a TPV vendor • Revised Sources of Funds (Manual) > Checking and Savings Accounts (Manual) to add to add Traditional Documentation with requirements for Direct verification by a TPV vendor of the Borrower's account • Added Seasoning Requirements for GNMA Streamline and cash-out transactions and HUD Streamline refinance transactions

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
12/18/18	7.7	Updated Nationwide Mortgage Limits with the 2019 HUD Loan Limits.
11/09/18	7.6	<ul style="list-style-type: none"> • Revised Housing Obligations/Mortgage Payment History > Cash-Out Refinance Transactions to clarify “A borrower is not eligible for a cash-out refinance if there is any delinquency (mortgage late payments) within 12 months of the case number assignment date or within 12 months of the new closing date.” • Revised Undisclosed Mortgage Debt (TOTAL) to clarify The mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects any delinquency within 12 months of the case number assignment date or within 12 months of the new closing date; • Revised Documenting the Transfer of Gifts (Manual and TOTAL) to add “If the gift donor’s beginning account balance is enough to cover the gift transfer that is considered an acceptable source. If additional deposits made are needed to provide the gift funds, the source of funds must be documented.” • Revised Additional Required Analysis of Stability of Employment Income > Frequent Changes in Employment to add “Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades).”
08/28/18	7.5	<ul style="list-style-type: none"> • Revised Verbal Verification of Employment (VVOE) to add requirement that a VVOE is not required for CMS Portfolio non-credit qualifying FHA Streamline loan transactions. • Revised Employer Housing Subsidy > Required Documentation to remove requirement to provide evidence of receipt of this housing subsidy allowance for at least six (6) months. History of receipt is not required for borrowers with active Military allowances (BAH). • Revised Employer Housing Subsidy > Calculation of Effective Income to remove requirement to use the lesser of the current rate or the six (6) month average. • Revised Streamline Refinances > Payment History Requirements to add Mortgage Payment History Requirements for Credit Qualifying Streamline and Non-Credit Qualifying Streamline loans.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
08/01/18	7.4	<ul style="list-style-type: none"> Revised Social Security Number to add SSN verification requirements for Non-Credit Qualifying Streamline borrowers. Revised Delinquent Federal Debt > Tax Liens to validate Borrower has made timely payments prior to closing (formerly at time of case number assignment) Revised Delinquent Federal Debt > Tax Liens to add IRS Lien Subordination requirements for Streamline Transactions Revised Judgments to validate Borrower has made timely payments prior to closing (formerly at time of case number assignment) Added IRS Lien Subordinations to streamline section – refers to Tax Liens
05/17/18	7.3	<ul style="list-style-type: none"> Revised Housing Obligations/Mortgage Payment History (TOTAL) to align with Manual section requirements.
04/10/18	7.2	<ul style="list-style-type: none"> Revised Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt to state “Delinquent federal non-tax debt may be paid through the loan closing transaction with verification the borrower has sufficient funds.” Added CAIVRS Appeal / Suppression section. Revised Properties Acquired Less Than 12 Months Prior to the Case Assignment Date to state “The Adjusted As-Is Value is the As-Is Property Value.”
03/27/18	7.1	<ul style="list-style-type: none"> Revised Business Debt in Borrower’s Name to add on time payments without delinquency are required Revised Additions and Converted Space to align with HUD 4000.1
03/13/18	7.0	<ul style="list-style-type: none"> Revised Contents of the Mortgage Application Package to add Document Images requirements. Revised Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) to remove CMS Overlay Revised Unacceptable Sources of Funds (TOTAL and Manual) to add cryptocurrency Revised Borrower Eligibility to list Nonprofit agencies, state and local government agencies and Instrumentalities of Government as ineligible for cash-out refinances.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
02/02/18	6.9	<ul style="list-style-type: none"> • Revised New Credit Report to remove “new debts” • Revised Roof Covering from 3 years to 2 years to align with HUD • Revised Non-Borrowing Spouse Debt in Community Property States to include registered domestic partners
12/26/17	6.8	<ul style="list-style-type: none"> • Updated Maximum Loan Amounts. • Revised the Interested Party Contributions on the Settlement Statement or Closing Disclosure (as applicable) and the Refinancing to Pay Off Recorded Land Contracts section.
11/20/17	6.7	<ul style="list-style-type: none"> • Added Standard 203(k) with Financed Reserves requirements. • Revised Interested Party Contributions on the Settlement Statement or Closing Disclosure, as applicable requirements. • Revised Employer Housing Subsidy requirements to 6 months
11/07/17	6.6	<p>Added the Combined Loan-to-Value and Maximum Mortgage Amount with Secondary Financing table and the FHA 203(h) requirements section.</p> <p>Revised the following sections:</p> <ul style="list-style-type: none"> • Borrower Eligibility • Nationwide Mortgage Limits • LTV Limitations Based on Borrower’s Credit Score • Loans (Standard) • Payment History on Housing Obligations • Alternative Documentation for Sources of Funds • Qualified Mortgage • Additions to Manufactured Housing • Standard 203(k) Transactions <p>Removed the following sections:</p> <ul style="list-style-type: none"> • Federal Debt (TOTAL) • Income Based Repayment (IBR) Plan • Hawaiian Home Lands Requirements

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
06/23/17	6.5	Revised the following sections: <ul style="list-style-type: none"> • (9) Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt • (K) Housing Obligations/Mortgage Payment History (TOTAL) • (I) Student Loans (TOTAL) > (4) Calculation of Monthly Obligation • (H) Student Loans (Manual) > (4) Calculation of Monthly Obligation • (5) Streamline Refinance Non-Credit Qualifying > (a) Borrower Eligibility • (F) Additional Manufactured Home on Property
05/02/17	6.4	<ul style="list-style-type: none"> • Revised Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) • Deleted Refinance of Borrowers in Negative Equity Positions (also known as Short Refinance) section
04/12/17	6.3	Added the following sections: <ul style="list-style-type: none"> • Unacceptable Sources of Income (TOTAL) section • Unacceptable Sources of Income (Manual) • Unacceptable Sources of Funds (Manual) Revised the following sections: <ul style="list-style-type: none"> • Delinquent Federal Debt section • Mixed Use of Property section • HUD Certification Label section • PFGMH Certification section • Traditional Current Employment Documentation section • Verbal Verification of Employment (VVOE) • Interested Party Contributions • Sources of Funds (TOTAL) • Unacceptable Sources of Funds (TOTAL) • Verbal Verification of Employment (VVOE) • Consultant/Borrower Agreement • Cash-Out Refinances / Borrower Eligibility • Net Tangible Benefit of Streamline Refinances • Consultant/Borrower Agreement • Additional Manufactured Home on Property • Additions and Converted Space • HUD Certification Label/ Required Analysis and Reporting

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
02/08/17	6.2	<ul style="list-style-type: none"> • Updated Electronic Signatures. • Revised Student Loans. • Updated Cash-Out requirements.
01/06/17	6.1	<ul style="list-style-type: none"> • Added Previous Financial Crimes • Updated Mortgage Limits for 2017 • Revised Accept Risk Classifications Requiring a Downgrade to Manual Underwriting • Revised (3) Cash-Out Refinance Transactions • Revised VOE requirements • Revised Retirement Income • Revised Estimating Real Estate Taxes • Marked Back to Work - Extenuating Circumstances as applicable to loans with Case Numbers assigned on or before September 30, 2016 • Revised Cash-Out Refinance • Revised Streamline Payment History Requirements • Revised Section 203(b) With Repair Escrow
10/24/16	6.0	<ul style="list-style-type: none"> • Added Name Changes section • Added Property Assessed Clean Energy (PACE) Assessments section • Revised the Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) section • Revised (C) Undisclosed Mortgage Debt (TOTAL) section • Added (B) Maximum Mortgage Amounts / Adjusted Values • Revised Payment History Requirements sections
09/16/16	5.9	<ul style="list-style-type: none"> • Added requirements for use of tax credits for MRI. • Revised Streamline Net Tangible Benefit (NTB) section.
09/06/16	5.8	<ul style="list-style-type: none"> • Revised the following sections: <ul style="list-style-type: none"> ○ Ineligible Borrowers ○ Cash-Out Refinance Transactions ○ Deferred Obligations (TOTAL and Manual) ○ Installment Loans (TOTAL and Manual) ○ Maximum Loan-to-Value Ratio • Added new section: <ul style="list-style-type: none"> ○ Student Loans (TOTAL and Manual) Applies to loans with Case Numbers assigned on and after June 30, 2016

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
07/25/16	5.7	<ul style="list-style-type: none"> • Borrower Eligibility > (5) Limitation on Cosigners Revised section: to Refer to the Closing Policy. Deleted “Cosigners are liable for the debt and sign the note; however, do not take title to the subject property and do not sign the security instrument. CMS requires all borrowers take title to the subject property, and therefore does not permit cosigners.” • Purchase > Family Member Transactions Added Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: <ul style="list-style-type: none"> ○ 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. ○ cousins are NOT considered a family member • (TOTAL) and (Manual) - Employment Related Income > (4) Past Employment Documentation <ul style="list-style-type: none"> ○ Added clarification that “High School transcripts are not permitted to complete the two year work history.” • (TOTAL) and (Manual) - General Asset Requirements > (A) Earnest Money Deposit (TOTAL) <ul style="list-style-type: none"> ○ Added “Cash on hand is not permitted as a source of funds.” • Added: POCs cannot be included in the borrower's Minimum Required Investment (MRI) • General Asset Requirements (TOTAL) > (A) Earnest Money Deposit (TOTAL) <ul style="list-style-type: none"> ○ Clarified that “Gifts of Equity (only permitted when provided by a Family Member. See Family Member for the definition of family members.)”

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
07/25/16 (cont.)	5.7 (cont.)	<ul style="list-style-type: none">• Evaluating Credit History (Manual) > (C) Payment History on Housing Obligations (Manual) Revised: CMS must determine the Borrower's Housing Obligation payment history through:<ul style="list-style-type: none">○ the credit report;○ verification of rent received directly from the landlord when completed by a professional property management company(for landlords with no Identity of Interest with the Borrower);○ verification of Mortgage received directly from the mortgage servicer; or○ a review of canceled checks that cover the most recent 12-month period• Evaluating Credit History (Manual) > (H) Bankruptcy (Manual) > (2) Standard: Chapter 13 A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA insured Mortgage, if at the time of case number assignment at least 24 months of the pay-out period under the bankruptcy has elapsed. CMS must determine that during this time, the Borrower's payment performance has been satisfactory and all required payments have been made on time; and the Borrower has received written permission from bankruptcy court to enter into the mortgage transaction. Added: A Chapter 13 bankruptcy that has been discharged for less than two (2) years at the time of case number assignment does not require approval from the bankruptcy court. The borrower must provide a satisfactory letter of explanation and a payment history for the last 24 months. Added: Throughout the Chapter 13 bankruptcy and up to two (2) years after discharge, obtain the bankruptcy papers and payment history. The borrower is not required to re-establish new debts for credit history. The borrower must have maintained good credit since the two (2) year discharge and/or chosen not to establish new credit.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
07/25/16 (cont.)	5.7 (cont.)	<ul style="list-style-type: none"> • Asset Requirements (Manual) > Documenting the Transfer of Gifts <ul style="list-style-type: none"> • Added table: CMS must verify and document the transfer of gift funds from the donor to the Borrower. The donor's bank statement is ALWAYS required to ensure that all funds are from an acceptable source, regardless of the manner in which the funds are transferred. The table below describes the requirements for the transfer of gift funds. • If the gift funds... How to document • Are in the borrower's account Obtain <ul style="list-style-type: none"> ○ A copy of the withdrawal document showing that the withdrawal was from the donor's account, and ○ The borrower's deposit slip and bank statement showing the deposit. ○ Are to be provided at closing, and ○ Are in the form of a cashier's check, certified check, money order, official check, or any other type of bank check from the donor's account Obtain a ○ Bank statement showing the withdrawal from the donor's account, and ○ Copy of the certified check payable to the closing agent. <ul style="list-style-type: none"> ▪ Are to be provided at closing, and ▪ Are in the form of an electronic wire transfer to the closing agent • Bank statement showing the wire transfer and sufficient donor's ability. ▪ Copy of wire transfer receipt from the closing agent. ▪ Are being borrowed by the donor, and ▪ Documentation from the bank or other savings account is not available. Have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender. ▪ Important: Cash in hand is not an acceptable source of donor gift funds. • Additions to Manufactured Housing <ul style="list-style-type: none"> • Added: "CMS does not permit additions or modifications to manufactured homes. Exceptions may be considered on a case by case basis by the Chief Credit Officer and/or Underwriting Manager."

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
05/05/16	5.6	<ul style="list-style-type: none"> • Corrected (4) Delinquent Federal Debt to reflect three months of payments are required (not one) • Revised Comparable Sales, Listings, Pending Sales, Rentals, etc. section to add "If appraisal does not contain side photographs, the appraiser must comment on why they were unable to take the photographs."
04/19/16	5.5	<p>Added Income Based Repayment (IBR) Plan requirements to TOTAL and Manual Underwriting sections</p> <p>(1) Definition IBR refers to the different loan repayment options offered by the Department of Education to help make student loan payments more manageable.</p> <p>(2) Standard CMS must include the IBR plan in the Borrower's liabilities.</p> <p>(3) Required Documentation CMS 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. CMS must obtain evidence of the anticipated monthly payment obligation, if available.</p> <p>(4) Calculation of Monthly Obligation CMS must use the actual monthly payment to be paid on a deferred liability, whenever available. For a student loan, if the actual monthly payment is zero or is not available, CMS must utilize 2 percent of the outstanding balance to establish the monthly payment.</p> <p>Revised Business Debt in Borrower's Name (TOTAL and Manual)</p>

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
04/19/16 (cont.)	5.5 (cont.)	<p>(2) Standard</p> <p>When business debt is reported on the Borrower’s personal credit report, the debt must be included in the DTI calculation, unless CMS can document that the debt has been paid by the Borrower’s business for at least 12 months, 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.</p> <p>This guidance does not apply to Sole Proprietors/Schedule C self-employed borrowers.</p> <p>Revised Other Public Assistance (TOTAL and Manual)</p> <p>(1) Definition</p> <p>Public Assistance (including foster care income on a case by case basis) refers to income received from government assistance programs.</p> <p>Removed Wedding Gifts from the list of Acceptable Sources of Funds (TOTAL)</p> <p>Gifts Gifts of Equity</p> <p>Revised Sale of Personal Property (TOTAL and Manual)</p> <p>(3) Required Documentation</p> <p>Borrowers may sell Personal Property to obtain funds for closing. Only titled items to which the borrower can prove ownership are acceptable (i.e. cars, boats, etc.). Personal items such as jewelry, appliances, etc. are not acceptable.</p> <p>CMS 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. Cash received for the sale of personal property is not acceptable. 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.</p> <p>Revised Streamline Refinances > (a) Occupancy Requirements to require one utility bill (not two).</p>

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
04/19/16 (cont.)	5.5 (cont.)	<p>(ii) Required Documentation</p> <p>CMS must obtain one utility bill to evidence that the Borrower currently occupies the Property as their Principal Residence. Acceptable utility bills include: electricity, gas, cable, water, land line phone, or internet service provider. The utility bills must be:</p> <ul style="list-style-type: none"> Listed in the borrower’s name Dated within 60 days of the loan application (multiple months of the same bill is not acceptable or required) Associated with the Property as the service address AND mailing address <p>Revised Streamline Refinances > Net Tangible Benefit of Streamline Refinances requirements:</p> <p>The net tangible benefit test is met if:</p> <ul style="list-style-type: none"> the remaining amortization period of the existing Mortgage 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. <p>Revised Application of Minimum Property Requirements and Minimum Property Standards by Construction Status > Determination of Defective Conditions to add Chinese Drywall requirement:</p> <p>(B) Standard</p> <p>The Appraiser must identify readily observable defective conditions.</p> <p>Environmental hazards can include Sulphur containing drywall AKA: Chinese drywall. An environmental property inspection is required.</p> <p>The interior appraisal for the subject property constructed from 2005-present in FL, VA or LA does not include the required narrative commentary in an addendum stating whether or not corrosive imported drywall (Chinese Drywall) is suspected.</p> <p>The report does not contain comments and corresponding photos to note whether any of the following is observed:</p> <ul style="list-style-type: none"> Corrosion on metal fixtures, wires, or plumbing Sulfur odor in the home Drywall with “Made in China” or “Knauf” markings

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
04/19/16 (cont.)	5.5 (cont.)	<p>Revised Condominium Projects to add HO6 Insurance requirements:</p> <p>b. Standard</p> <p>A Condominium Project must be on the list of FHA-approved condominiums unless it meets the definition for a Site Condominium.</p> <p>For all Condominium properties, a copy of the Master Policy or a certificate showing proof of coverage for both the Homeowner's Association and the Condominium unit owner must be submitted to CMS prior to funding. Condominiums must also have an HO-6 policy covering improvements within the individual condo, which are not otherwise covered by the blanket policy. The HO-6 coverage must be for an amount that is at least 20% of the appraised value of the individual unit. The Master Policy must also contain a minimum of \$1,000,000 coverage for "Director's & Officer's" liability. Refer to the CMS Hazard Insurance Policy for additional insurance requirements.</p>
01/11/16	5.4	<p>Revised the Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) section to align with the Manual Underwriting Checklist requirements</p> <p>CMS must downgrade and manually underwrite any Mortgage that received an Accept recommendation if:</p> <ul style="list-style-type: none"> • the mortgage file has any findings by TOTAL that cannot be met; • 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; • <u>Delinquent Federal Debt</u>; • 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 (recording date) through a Pre-Foreclosure Sale (Short Sale); • the case number assignment date is within three years of the date of the transfer of title (recording date) through a foreclosure sale; • the case number assignment date is within three years of the date of the transfer of title (recording date) through a Deed-in-Lieu (DIL) of foreclosure; • the Mortgage Payment history requires a downgrade as defined in <u>Housing Obligations/Mortgage Payment History</u>;

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
01/11/16 (cont.)	5.4 (cont.)	<ul style="list-style-type: none"> • Existing Disputed Accounts/Collections/Public Records (Excludes medical, includes charge-offs, collections, late payments in last 24 months); • the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts; • Credit score is under 640 and DTI is greater than 43% regardless of the AUS decision; • the Borrower has undisclosed mortgage debt; or • business income shows a greater than 20 percent decline over the analysis period. <p>Revised Borrower Eligibility > (A) General Borrower Eligibility Requirements</p> <p>Added - (5) Limitation on Cosigners</p> <p>Cosigners are liable for the debt and sign the note; however, do not take title to the subject property and do not sign the security instrument. CMS requires all borrowers take title to the subject property, and therefore does not permit cosigners.</p> <p>Revised Use of TOTAL Mortgage Scorecard > ii. Requirements for the Submission of Data through TOTAL Mortgage Scorecard</p> <p>Added - If the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard, the file must be manually underwritten.</p> <p>Revised Use of TOTAL Mortgage Scorecard > iii. Function of TOTAL Mortgage Scorecard</p> <p>Added - The underwriter must manually underwrite any mortgage file where additional information, not considered in the AUS recommendation, affects the overall insurability of the mortgage.</p> <p>Revised Evaluating Liabilities and Debts (TOTAL) section</p> <p>Added (4) Delinquent Federal Debt</p> <p>Borrower(s) with delinquent federal debt must be manually downgraded. Borrower(s) with a repayment plan (ex: IRS) must provide the following information:</p> <ul style="list-style-type: none"> • Copy of approved installment agreement • Proof the borrower(s) has made all the payments under the repayment agreement on time. • The borrower has made a timely payment for at least three months of the scheduled payments. • The borrower may not prepay scheduled payments in order to meet the required minimum of three month's payments. <p>Monthly payment shall be included in borrower(s) debt ratio.</p>

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
12/16/15	5.3	<ul style="list-style-type: none"> • Added to the Legal Restrictions on Conveyance (Free Assumability) section: <ul style="list-style-type: none"> • Home Energy Renovation Opportunity (HERO) Program and Property Assessed Clean Energy (PACE) Program financing are not eligible. • Exception for Age Restrictions: the mortgaged property may be subject to protective covenants which prohibit or restrict occupancy by, or transfer to, persons who are not elderly if: <ul style="list-style-type: none"> ○ The restrictions do not have an undue effect on marketability; and ○ The restrictions do not constitute illegal discrimination and are consistent with the Fair Housing Act and all other applicable nondiscrimination laws. • Added new section Exclusion of Debts for Legally Separated Couples (TOTAL AND MANUAL) <ul style="list-style-type: none"> (1) Definition <p>Legal separation is a legal process whereby a married couple may formalize a separation while remaining legally married. Legal separation is granted in the form of a court order.</p> (2) Standard <p>CMS permits the exclusion of debts for legally separated couples in accordance with state law. Debts in the name of the non-borrowing spouse are not required to be included in the Borrower’s qualifying ratios. The non-borrowing spouse’s credit history is not considered a reason to deny a mortgage application.</p> <p>CMS must notate the file referencing the exclusion of any debt from consideration.</p> (3) Required Documentation <p>CMS must obtain a copy of the legal separation agreement or court order as proof of legal separation.</p> <p>CMS must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be excluded.</p> • Revised the General Income Requirements (TOTAL AND MANUAL) <p>Revised - CMS may only consider income if it is legally derived and, when required, properly reported as income on the Borrower’s tax returns. Foreign earned income is acceptable for qualifying purposes so long as it is taxed using U.S. tax returns. The Underwriter must consider the impact of any foreign income exclusion on occupancy requirements.</p>

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
12/16/15 (cont.)	5.3 (cont.)	<ul style="list-style-type: none"> • Revised the Sources of Funds (TOTAL) to remove Trust Accounts from list of acceptable sources/Bank Accounts • Revised the Checking and Savings Accounts (TOTAL) - 2) Standard section: For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value or is excessive based on the Borrower’s history of accumulating savings, CMS must verify and obtain documentation of the deposits. CMS must also verify that no debts were incurred to obtain part, or all, of the MRI. • Added to Gifts (Personal and Equity) (TOTAL and Manual sections) A Family Member’s relationship is documented by obtaining: <ul style="list-style-type: none"> • A gift letter signed and dated by the borrower(s) and gift donor to state the relationship, and • An independent verbal gift letter verification When discrepancies exist, such as inconsistencies between the gift letter and verbal verification, or appearance of alterations or multiple gift letters from the originator, then additional documentation must be provided to support the donor’s relationship. • Added table to Satisfactory Credit section • Revised Simple Refinance (i) Standard section: Simple Refinance is only permissible for owner-occupied Principal Residences. All loan amounts must be submitted through Total Score Card. Refer to <u>AUS Section</u> for manual underwrite requirements. • Added to the Borrower Eligibility (a) Occupancy Requirements section: CMS permits verification of the borrower’s occupancy using employer documentation. CMS must obtain a written VOE with the borrower’s current address listed in the comment section or a letter from the employer on the employer’s letterhead. Note: if there is any reference to the borrower’s income on the VOE or employer letter, the loan must be underwritten as credit qualifying.

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
11/06/15	5.2	<ul style="list-style-type: none"> • Added “the mortgage file has any findings by TOTAL that cannot be met” to the list of Automatic Downgrades • Updated Traditional Current Employment Documentation to add “When pay stubs are handwritten or do not contain YTD earnings, the following additional requirements apply: <ul style="list-style-type: none"> ○ a fully completed written VOE, and ○ a payroll ledger documenting YTD earnings signed by the employer” • Added Verbal Verification of Employment (VVOE) requirements • Removed VOD requirements throughout • Added section for UCC Filings <ul style="list-style-type: none"> ○ If Title is taking exception to a Uniform Commercial Code (UCC) filing, then it must be removed or subordinated. • Added clarification for using Utility Bills to verify occupancy: CMS must obtain two different utility bills to evidence that the Borrower currently occupies the Property as their Principal Residence. Acceptable utility bills include: electricity, gas, cable, water, land line phone, or internet service provider. The utility bills must be: <ul style="list-style-type: none"> ○ Listed in the borrower’s name ○ Dated within 60 days of the loan application (multiple months of the same bill is not acceptable or required) ○ Associated with the Property as the service address AND mailing address • CMS must process the Streamline Refinance as a non-owner occupied Property if CMS cannot obtain any utility bills in the borrower’s name to evidence that the Borrower occupies the Property as a Principal Residence. • Added clarification for 6 months requirement to Reduction in Term • The net tangible benefit test is met if: <ul style="list-style-type: none"> ○ the mortgage term is reduced by at least 6 months from the remaining term on the existing loan; ○ 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. • Identity of Interest Certification section revised

FHA Underwriting Guidelines

Mortgage Lending Division

Version 10.5 – 01/25/22



Revision Summary (continued)

Date	Version	Description of Change
09/28/15	5.1	Minor clean up and revisions to FHA guidelines implemented on 9/14
09/14/15	5.0	New document to comply with HUD FHA Handbook 4000.1.

For previous versions of the FHA Underwriting Guidelines, contact the Carrington Policies and Procedures Department at PoliciesAndProcedures@carringtonmh.com.
