FHA Standard Refinance (No Cash-Out Refinance / Rate and Term)

This matrix is intended as an aid to help determine whether a property/loan qualifies for certain financing. It is not intended as a replacement for FHA guidelines. Users are expected to know and comply with FHA requirements. ***FHA requirements are found in HUD Handbook 4000.1.***

NOTE: These guidelines include overlays, which may be ***more restrictive*** *than FHA requirements. A thorough reading is recommended.*

Program Qualifications

- Impac's FHA Standard Refinance (No-Cash-Out Refinance / Rate and Term) program is designed for the refinance of owner occupied single family residences using an FHA insured home loan. All proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction. The existing loan is not required to be FHA insured. Loan is fully credit qualifying with appraisal.
- Impac's FHA Simple Refinance program is 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. Loan is fully credit qualifying with appraisal.

Eligibility Matrix Loan Amount & LTV Limitations

Rate and Term Refinance

FHA Maximum mortgage cannot exceed statutory limits for the area.
https://entp.hud.gov/idapp/html/hicostlook.cfm Maximum 97.75% CLTV
FHA Maximum Mortgage Calculation Worksheet to be completed, reviewed, and signed by the DE Underwriting Consultant.

Minimum Credit Score	Units	Length of Occupancy	Max Base LTV	Total LTV including UFMIP	Max CLTV
580	1-4	Occupied as principal residence for 12 months or occupied since acquisition if acquired within 12 months, at case number assignment	97.75%	Maximum Base LTV plus the amount of the UFMIP	97.75%
580	1-4	Occupied as principal residence fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership	85%	Maximum Base LTV plus the amount of the UFMIP	97.75%

FHA – Simple Refinance (see *Simple Refinance* in Eligibility Section)

Minimum Credit Score	Units	Length of Occupancy	Max Base LTV	Total LTV including UFMIP	Max CLTV
580	1-4	No minimum occupancy however **must** be principal residence and an existing FHA-insured loan	97.75%	Maximum Base LTV plus the amount of the UFMIP	97.75%

Note: FHA Simple Refinance has MI premiums similar to FHA Streamline – see *FHA Mortgage Insurance Premium Matrix*

Maximum Loan Amount

Continental US	Conforming		High Balance	
Units	Lowest Maximum (floor)	Highest Maximum (ceiling)	Lowest Maximum (floor)	Highest Maximum (ceiling)
1	$331,760	$510,400	$510,401	$765,600
2	$424,800	$653,550	$653,551	$980,325
3	$513,450	$789,950	$789,951	$1,184,925
4	$638,100	$981,700	$981,701	$1,472,550

Maximum loan amounts above are effective for case numbers assigned on or after January 1, 2020.

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the floor or greater than the ceiling as outlined in the matrix above.
The lowest minimum "floor" loan amounts for the FHA High Balance products will be based on the Base Loan amount and not the Total Loan Amount that includes financed Up-Front Mortgage Insurance (UFMIP).

Product Description

- Fixed Rate 15 and 30 year term; fully amortized, including High Balance
- 3/1 and 5/1 ARM, 30 year fully amortized, including High Balance

Product Codes

Fixed	Product Code	Description
15 Years	FF15	FHA FRM 15 year
15 Years	FF15HB	FHA FRM 15 year High Balance
30 Years	FF30	FHA FRM 30 year
30 Years	FF30HB	FHA FRM 30 year High Balance
Hybrid ARM	**Product Code**	**Description**
3/1 ARM	FA31	FHA 3/1 ARM
3/1 ARM	FA31HB	FHA 3/1 ARM High Balance
5/1 ARM	FA51	FHA 5/1 ARM
5/1 ARM	FA51HB	FHA 5/1 ARM High Balance

Eligibility Requirements

Adjustable Rate Details

Interest rate adjustment caps	3/1 and 5/1 ARM = 1/1/5 Initial – 1% up/down; Subsequent – 1% up/down; Lifetime – 5% up
Margin*	2.00%
Index	1-Year Constant Maturity Treasury (CMT), defined as the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year
Interest rate Floor	Same as Margin
Change dates	3/1 - Initial interest rate change date will occur within 36 to 42 months, depending on disbursement date. Interest rate will adjust every 12 months thereafter. 5/1 - Initial interest rate change date will occur within 60 to 66 months, depending on disbursement date. Interest rate will adjust every 12 months thereafter. **Must** meet GNMA requirements. FHA initial change dates are the first day of January, April, July, or October, depending on disbursement date.
Conversion Option	None
Assumption	Allowed for qualified borrowers
Temporary Buydowns	Temporary interest rate buydowns are not permitted with FHA refinance transactions. In addition, they are not permitted with ARMs.
Qualification	Borrowers qualify at the Note Rate

*see rate sheet to confirm current information, subject to change

ARM Suffix Codes	
Loan Type	ADP Code
203(b) ARM	729
234(c) Condo ARM	731

Appraisal Requirements

A new FHA appraisal is always required
All property conditions **must** be satisfied prior to closing
No termite certification is required unless appraiser notes a problem
Termite related repairs are considered health and safety issues

All valuation conditions, including repairs, alterations and/or required inspections, will be reported within the appropriate section of the applicable Fannie Mae appraisal reporting form.

Appraisal Validity

Initial Appraisal Validity

- The initial appraisal is valid for 120 days on all mortgages—including new construction—from the effective date of the appraisal
- The **Effective Date** of the appraisal report is the date the appraiser inspected the property

Initial Appraisal Validity 30-Day Extension

The 120-day validity period of an appraisal may be extended for 30 days at the option of the Mortgagee if:

- The mortgagee loan approval or HUD-issued Firm Commitment is issued prior to the expiration of the original appraisal; or
- The borrower signed a valid sales contract prior to the expiration date of the appraisal

Appraisal Update

- Appraisal update **must** be performed before the initial appraisal has expired.
- An appraisal cannot be updated if an appraisal extension has been issued.
- The valid period for an updated appraisal is 240 days after the Effective Date of the initial appraisal report.

	<u>Appraisal Integrity</u>
	• The appraisal report **<u>must</u>** list FHA as an Intended User of the appraisal
	
	<u>Case Numbers</u>
	▪ FHA case number is **<u>assigned to the property</u>**, not to the borrower.
	▪ The original mortgagee **<u>must</u>** assign the case number to the new mortgagee **<u>immediately</u>** upon the borrower's request
	  ○ The original mortgagee may provide processing documents but is not required to do so.
	
	<u>Transferring Existing Appraisals</u>
	▪ The mortgagee, at the borrower's request, **<u>must</u>** transfer the appraisal to the second mortgagee within 5 business days.
	▪ The original mortgagee may not charge the borrower a fee for the transfer of any documents.
	▪ A fee may be negotiated between the original mortgagee and the new mortgagee. However, a fee for the transfer of documents for Streamline Refinance transactions is not permitted.
	
	<u>Transferring Existing Appraisal – New Borrower</u>
	▪ When an existing appraisal is being used for a different borrower, the mortgagee **<u>must</u>**:
	  ○ Enter the new borrower's information in FHA Connection
	  ○ Collect the appraisal fee from the new borrower and refund the fee to the original borrower
	  ○ Have the appraiser review the purchase contract and revise the appraisal report for value adjustments accordingly.
	
	<u>Communications with third parties</u>
	▪ Mortgagees may not discuss the contents of the appraisal with anyone other than the borrow. This includes real estate agents.
	
	<u>Mixed Use</u>
	• A minimum of 51% of the entire building square footage **<u>must</u>** be residential use
	
	<u>Shared Wells</u>
	• Shared wells are allowed only when the lender evidences the connection to public or community water system is not feasible and the property is not located in an area where local officials have determined public connection to be feasible.
	
	For 2-4 unit properties - appraiser to use FNMA 1025 Small Residential Income Property Appraisal Report Form
	
	Appraisal **<u>must</u>** comply with the FHA Appraisal Independence Policy
	
	A Compliance Certification is required for follow-up repairs or completion of items on any new construction loan.
	
	Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Appraiser Requirements	Appraisers **<u>must</u>** be on FHA's approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential The assigned appraiser **<u>must</u>** perform the physical inspection of the property. He/she may not sign the appraisal performed by another appraiser <u>Information Required before Commencement of Appraisal</u> The Appraiser **<u>must</u>** obtain all of the following from the Mortgagee before beginning an appraisal: • 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 the Mortgagee so that the Appraiser can communicate any noncompliance issues. Appraiser **<u>must</u>** comply with the FHA Appraisal Independence Policy
Assets	If assets are needed to close, verification of the assets is required regardless of the amount needed to close. The following documents are required: • Verification of Deposit and • Most recent bank statement **OR** • Two months bank statements Reduced documentation eligible if an Approve recommendation is issued by Total Scorecard Note: A written VOD cannot be standalone documentation. At least one month's bank statement is required with a

	VOD (Impac overlay). **Reserves** • 1 - 2 units – None • 3 - 4 units – 3 months PITI • If using "significant reserves" as a compensating factor, a minimum 3 months PITI **must** be documented. • Only retirement accounts accessible for liquidation may be counted as reserves. • Accounts not accessed for liquidation by the borrower until retirement age may not be counted as part of the borrower reserves • See ML2014-02 for new reserve requirements and compensating factors on manually underwritten loans effective with case numbers assigned on or after April 21, 2014. • Effective with case numbers assigned on or after April 21, 2014, excess gift funds may **not** be counted as reserves for **manually** underwritten loans • For TOTAL Scorecard approvals the portion of a gift not used to meet closing requirements may be counted as reserves **except** on loans involving 3-4 unit properties. **New Accounts / Large Deposits** For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the mortgagee **must** obtain documentation of the deposits. **Joint Accounts** If the borrower does not hold the deposit account solely, all non-borrower parties on the account **must** provide a written statement that the borrower has full access and use of the funds. **Liquid Assets for Cash to Close and Reserves** Retirement Accounts (TOTAL) • Mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties. • The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as reserves. • If any portion of the asset is required for funds to close, evidence of liquidation is required. Cryptocurrencies (e.g., Bitcoin, Ethereum) are not allowed as eligible assets for any portion of a mortgage transaction including down payment, closing costs, or reserves.
Assumptions	Permitted – Credit worthy borrowers only
Borrower Eligibility	At least one borrower on the refinancing mortgage **must** hold title to the property being refinanced prior to case number assignment. U.S. citizenship is not required ▪ Mortgagee **must** determine the U.S. residency status of the borrower based on information provided on the mortgage application and other application documentation ▪ **In no case is a Social Security card sufficient to prove immigration or work status** All borrowers, including permanent resident aliens **must** have a valid social security number. Validate the social security number using any one of the following: • Social Security Card • Pay stub • W-2 • Tax Transcripts • Validation from SSA Permanent Resident Aliens • Same eligibility requirements as US Citizens • Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS) formerly the INS. • Copy of the Alien Registration Receipt Card (Resident Alien card), I-551 Non-Permanent Resident Aliens • Property will be borrower's principal residence • Borrower has a valid SSN • Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS • Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens Inter Vivos Revocable Trust The mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided:

- The beneficiary of the living trust is a cosigner
- The beneficiary will occupy the property as their principal residence
- The trust provides reasonable means to assure that the mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property
- The mortgagee **must** obtain a copy of the trust documentation
- Power of Attorney (POA) is not allowed on inter vivos trusts (Impac overlay)

Ineligible

- Foreign Nationals
- Land Trusts
- Governmental entities and FHA-approved nonprofit corporations

Calculating the New Mortgage Amount with an Appraisal

Calculating Maximum Mortgage Amount: Debts

The existing debt that can be included in a rate and term refinance:

- 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, per HUD guidelines “Refinancing to buy out title holder equity”
- Interest due on the existing mortgage(s)
- Mortgage insurance Premium (MIP) due on existing mortgage
- Any prepayment penalties assessed
- Late charges, and
- Escrow shortages

Calculating Maximum Mortgage Amount: Additional Costs

Additional costs associated with the transaction may be able to be financed in to the rate and term transaction including:

- Allowed costs include all borrower-paid costs associated with the new mortgage; and
- Any borrower-paid repairs required by the appraisal

Maximum Mortgage Calculation for Rate-Term Refinance Transactions

Step One: National Mortgage Limit	
Nationwide Mortgage Limit for the area (MSA or county)	
Step Two: Sum of Existing Debt and Costs Associated with Transaction	
Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	
Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	
Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 within last 12 months for purposes <u>other than repairs</u> – then **not eligible**	
Ex-Spouse or co-borrower equity acceptable to FHA guidelines	
Prepayment penalties	
Late charges	
Escrow Shortages	
Borrower paid costs associated with new mortgage	
Borrower paid repairs required by appraisal	
If paying off an FHA Mortgage	
Upfront Mortgage Insurance Refund (-)	
TOTAL	$
Step Three: Loan to Value	
Adjusted Value	$

	x LTV Factor (see below) **97.75%** - Occupied as principal residence for 12 months or occupied since acquisition if acquired within 12 months, at case number assignment **85%** - Occupied as principal residence fewer than 12 months prior to the case number assignment date; or if owned less than 12 months has not occupied the property for that entire period of ownership
	$
Step Four: Maximum Loan Amount	
The maximum mortgage amount is the lesser of:	
Step 1, Step 2, or Step 3	$

The maximum base mortgage calculation **may never exceed the statutory limit except by the amount of any new Up-Front MIP**.

Refer to *Geographic Locations* … for additional state specific restrictions and requirements.

Review FHA Maximum Mortgage Calculation Worksheets at the end of this matrix.

Co-Borrowers

Co-Borrower

- Co-borrower **must take title** to the property
- Co-borrower **must** sign all documents including the Loan Application, Note and the Mortgage/Deed of Trust
- Income, assets and debts from all borrowers (including co-borrowers) are used in qualifying
- Co-borrower **must** have a principal residence in the U.S.
- Co-borrower **does not** have to occupy the subject property.
- **If the LTV exceeds 75% and the co-borrower(s) will not occupy,** the following additional requirements **must** be met:
  - **Subject must be a 1-unit** property
  - The Co-borrower(s) **must** be a close family member (child, parent, grandparent, spouse, adopted son or daughter, stepson, stepdaughter) or have a long-standing relationship (**must** be able to document) with the borrower
    - If the co-borrower is unrelated or does not have a long standing relationship with the borrower, the maximum LTV is 75%

Co-signers - ineligible

Non-occupant co-borrowers must always have a qualifying credit score.

Credit

Payoff Statement Requirements
The mortgagee **must** obtain the payoff statement for all existing mortgages.

Valid Social Security Number
- The mortgagee **must** document and validate for each borrower their valid social security number.

Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
Mortgagees are 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. Mortgagees are required to determine whether the borrowers have delinquent federal non-tax debt. Mortgagees 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).

- If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Mortgagee **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, the Mortgagee **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.
- The Mortgagee may not deny a Mortgage solely on the basis of CAIVRS information that has not been verified by the Mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the mortgage application. Verified delinquent federal non-tax debt makes the borrower ineligible.
- 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.
- The Mortgagee **must** include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

Mortgage Payment History Requirements
- Loan **must** be current for the month due (payment due in the month of closing may be paid either in cash or financed)
- Housing (Mortgage/Rental) Payment History (PITIA) is inclusive of all liens regardless of position, as well as all occupancy types.
- Obtain up to a 12-month or life of loan payment history on all real estate owned via Residential Mortgage Credit Report, Tri-merged in-file credit report, cancelled checks or VOM showing payments are current.
- AUS Approve – Mortgage history evaluated by TOTAL Scorecard. Loans will be ineligible with one or more housing (mortgage/rental) delinquency of 60, 90, 120, 150 days or greater reported within 12 months of the date of the credit report.

AUS Refer requires Underwriter review

Mortgage Payment History Requirements – Manually Underwritten

≥ 6 Months of Mortgage Payment History	< 6 Months of Mortgage Payment History
0x30 for all mortgages for the 6 months prior to case number assignment, and no more than:	0x30
1x30 for the 6 months previous for all mortgages.	----

- The borrower **must** have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.

Minimum Credit Score Requirements (see *Loan Amount & LTV Limitations*)
- **580** for both AUS TOTAL Scorecard approvals and manual underwrite
- Non-traditional credit is ineligible

Minimum Decision Credit Score (MDCS)

A minimum decision credit score is determined for each borrower. Where the loan involves multiple borrowers, select the lowest minimum decision credit score for all borrowers. Where the loan involves multiple borrowers and one or more of the borrowers do not have a credit score (non-traditional or insufficient credit), use the lowest minimum decision credit score of the borrower(s) with credit score(s). If the borrower's MDCS is at or above 580 then the borrower is eligible for maximum financing.

Non-traditional Credit

Borrowers with non-traditional credit (or insufficient credit) **must** qualify based on the guidance in HUD 4000.1
If TOTAL renders an "accept/approve" risk classification, it can be relied on (subject to correct data) **EXCEPT** when **none of the owner-occupants has a credit score.** In such cases, the loan **must** be underwritten using the insufficient credit underwriting guidelines.

Borrower with one credit score eligible as follows:
- TOTAL Scorecard Approve/Eligible decision required
- Credit data is available from one repository and credit score is obtained from that repository
- A three in-file merged credit report was ordered

A loan that has either:
- A combination of borrower(s) with score(s) and borrower(s) with no score that receives a "Refer" or "Manual Downgrade" or
- None of the occupant borrowers have a score

must be evaluated according to HUD Handbook 4000.1. FHA prefers that all non-traditional credit references be verified by a credit bureau and reported back to the lender as a non-traditional mortgage credit report (NTMCR) in the same manner as traditional credit references. Impac requires non-traditional credit reports from Impac-approved credit agencies.

Authorized User (TOTAL)

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

Non-Borrowing Spouse (see also *Documentation*)

The mortgagee **must** obtain a credit report for a non-borrowing spouse 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 the mortgagee **must** either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report **must** contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

Deferred Obligations (TOTAL)

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. The Mortgagee **must** verify and include deferred obligations in the Borrower's liabilities.

- Documentation - The Mortgagee **must** obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The Mortgagee **must** obtain evidence of the anticipated monthly payment obligation, if available.
- Calculation of Monthly Payment
    - The Mortgagee **must** use the actual monthly payment to be paid on a deferred liability, whenever available.
    - If the actual monthly payment is not available for installment debt, the Mortgagee **must** utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
    - Note: Student loans are no longer a part of "Deferred Obligations" section of HUD Handbook 4000.1. Student loans have separate section and calculation/documentation requirements.

Student Loans (TOTAL and Manual) (ML 2016-08)

(The following is mandatory guidance effective for all case numbers assigned on or after June 30, 2016; however, mortgagees may begin using the policy immediately. The revised guidance allows the same calculation criteria to be applied regardless of the student loan payment plan type (e.g., income-based payment plans) or deferral status) The mortgagee **must** include all student loans in the borrower's liabilities, regardless of the payment type or status of payment.

- Required Documentation

  If the payment used for the monthly obligation is:
    - Less than 1 percent of the outstanding balance reported on the borrower's credit report, and
    - Less than the monthly payment reported on the borrower's credit report;

  The mortgagee **must** obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.
- Calculation of Monthly Obligation

  Regardless of the payment status, the mortgagee **must** use either:
    - The greater of:
        - 1 percent of the outstanding balance on the loan;
        - The monthly payment reported on the borrower's credit report; or
    - The actual documented payment, provided the payment will fully amortize the loan over its term.

Installment Loans (TOTAL and Manual)

Installment loans (excluding student loans) 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. The mortgagee **must** include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the borrower's debts. 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, the mortgagee **must** use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.

Closed-End Debt Paid Off Within 10 Months (TOTAL and Manual)

Closed-end debts do not have to be included in the qualifying ratio if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10-month requirement.

Waiting Periods after Significant Derogatory Credit Events – How to Measure

The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event (event date) and ends on the date of case number assignment. Impac follows standard FHA Waiting Period Requirements. Reduced waiting periods "with Extenuating Circumstances" are allowed at underwriter discretion with appropriate documentation.

Reduced Waiting Periods After Derogatory Events – Extenuating Circumstances

Reduced waiting periods due to extenuating circumstances may only be applied via Manual Underwriting.

Bankruptcy (TOTAL)

The mortgagee **must** document the passage of two years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of case number assignment, the mortgage **must** be downgraded to a REFER and manually underwritten.

Bankruptcy (Manual)

- Chapter 7 bankruptcy (liquidation) does not disqualify a borrower if, at the time of case number

assignment, at least two 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 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; and
- Has since exhibited a documented ability to manage their financial affairs in a responsible manner

- Chapter 13 bankruptcy does not disqualify a borrower if, at the time of case number assignment, at least 12 months of the pay-out period under the bankruptcy has elapsed
  - Borrower's payment performance **must** be satisfactory and all required payments have been made on time; and
  - Borrower has received written permission from the bankruptcy court to enter into the mortgage transaction
  - Mortgagee **must** document that borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur

Collections, Charge Offs, Accounts with Late Payments in the Previous 24 Months, Judgments (TOTAL)
Borrower is not required to obtain an **explanation** of collection accounts, charge off accounts, accounts with late payments, judgments or other derogatory information.

Collection Accounts (TOTAL)
If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of $2,000 or greater, the mortgagee **must**:
- Verify that the debt is paid in full at the time of or prior to settlement using acceptable sources of funds;
- Verify that the borrower had 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 of the outstanding balance of each collection and include the monthly payment in the borrower's DTI.

Collection accounts of a non-borrowing spouse in a community property state **must** be included in the $2,000 cumulative balance and analyzed as part of the borrower's ability to pay all collection accounts, unless excluded by state law.
- Documentation: The mortgagee **must** provide the following documentation:
  - Evidence of payment in full, if paid prior to settlement; or
  - The payoff statement, if paid at settlement; or
  - The payment arrangement with creditor, if not paid prior to or at settlement.

  If the mortgagee uses 5% of the outstanding balance, no documentation is required.
- Medical collections are excluded and are not considered debt

Charge Off Accounts (TOTAL)
Charge off accounts do not need to be included in the borrower's liabilities or debt.

Collection Accounts, Charge Off Accounts (Manual)
Mortgagee **must** document reasons for approving a mortgage when the borrower has any collection accounts or charge off accounts. The borrower **must** provide a letter of explanation, which is supported by documentation, for each outstanding collection or charge off account. The explanation and supporting documentation **must** be consistent with other credit information in the file.

Judgments (TOTAL and Manual)
Mortgagee **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 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. Mortgagee **must** include the payment amount in the agreement in the borrower's monthly liabilities and debt.
  - Mortgagee **must** obtain a copy of the agreement and evidence that payments were made on time in accordance with agreement
- Mortgagee **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

Judgments: Additional Requirement (Manual)

Regardless of the amount of outstanding judgments, the lender **must** determine if the judgment was a result of:

- The borrower's disregard for financial obligations
- The borrower's inability to manage debt
- Extenuating circumstances

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

The mortgagee **must** manually downgrade to a REFER if the borrower had a foreclosure or deed-in-lieu of foreclosure in which title transferred from the borrower within three years of case number assignment.

Foreclosure and Deed-in-Lieu (DIL) of Foreclosure (Manual)

Borrower is not eligible if 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.

- Exception: An exception to the three-year requirement is allowed 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
    - Mortgagee **must** obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control

Pre-Foreclosure Sale (Short Sales) (TOTAL)

The mortgagee **must** document the passage of three years since the date of the short sale. If the short sale occurred within three years of the case number assignment date, the mortgage **must** be downgraded to a REFER and manually underwritten. This three-year period begins on date of transfer of title by short sale.

Pre-Foreclosure Sales (Short Sales) (Manual)

Borrower is not eligible if they relinquished a property through a short sale within three years from the date of case number assignment. This three-year period begins on the date of transfer of title by Short Sale.

- Exception for Borrower Current at the Time of Short Sale: An exception to the three-year requirement is allowed 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
- Exception for Extenuating Circumstances: An exception to the three-year requirements is allowed 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 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
    - Mortgagee **must** obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control

Tax Liens (TOTAL and Manual)

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 months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required mini9mum of three months of payments. The payment amount in the agreement **must** be included in the borrower's DTI. The lien holder **must** subordinate the tax lien to the FHA-insured mortgage.

Credit Counseling/Payment Plan (TOTAL)

Participating in a consumer credit counseling program does not require a downgrade to a manual underwrite. No explanation or other documentation is needed.

Credit Counseling/Payment Plan (Manual)

Participating in a consumer credit counseling program does not disqualify a borrower, provided the mortgagee 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 in to the mortgage transaction

	Business Debt in Borrower's Name (TOTAL and Manual) When business debt is reported on the borrower's personal credit report, the debt **must** be included in the DTI calculation, unless the mortgagee can document that the debt is being paid by the borrower's business, and the debt was considered in the cash flow analysis of the borrower's business. The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis. • Mortgagee **must** document that the debt is paid out of company funds (e.g., 12 months cancelled checks) and that the debt was considered in the cash flow analysis of the borrower's business. 30-Day Accounts (TOTAL and Manual) 30-day accounts refer to a credit arrangement that requires the borrower to pay off the outstanding balance on the account every month. The mortgagee **must** verify the borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the borrower's DTI. If the credit report reflects any late payments in the last 12 months, the mortgagee **must** utilize 5 percent of the outstanding balance as the borrower's monthly debt to be included in the DTI. • Use the credit report to document the balance and document that funds are available to pay off the balance in excess of the funds and reserves required to close the mortgage. Payment History on Housing Obligations (Manual) The Mortgagee **must** determine the Borrower's Housing Obligation payment history through: • the credit report; • verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower); • verification of Mortgage received directly from the mortgage servicer; or • a review of canceled checks that cover the most recent 12-month period. The Mortgagee **must** verify and document the previous 12 months' housing history: • For Borrowers who indicate they are living rent-free, the Mortgagee **must** obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free. • A Mortgage that has been modified **must** utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. Liabilities • True co-signed (guarantor) accounts do not have to be included in the debt if underwriter verifies **both** 12 month on time history and that the payments are being made by the primary obligor. • If the credit report does not reflect a monthly payment on any open revolving account then mortgagee **must** use the payment shown on the current account statement or 5% of the outstanding balance. • Lease payments (particularly auto leases) should typically be included in the DTI regardless of the remaining term Closed-end Debts Paid Off Within 10 Months 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% of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10 month requirement. Manual Downgrade – See *Underwriting* for conditions that require a manual downgrade. Delinquent Federal Tax Debt Borrowers with delinquent Federal Tax Debt are ineligible. • Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt • The borrower has made timely payments for at least three months of scheduled payments • The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments • Mortgagee **must** include the payment amount in the agreement in the calculation of the borrower's DTI ratio • Mortgagee **must** include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable
Documentation	Document as determined by AUS findings, FHA Manual and Impac guidelines. The mortgagee **must** obtain a Refinance Authorization Number from FHA Connection (FHAC) for all FHA-to-FHA refinances.

	<u>Maximum Age of Documents</u> General Document Age: • Documents used in origination and underwriting a mortgage may not be more than **120 days old at the Disbursement Date.** Counting of Days • Day one is the Day after the effective or issue date of the document, whichever is later. Disbursement Date – definition • The **Disbursement Date** refers to the date the proceeds of the mortgage are made available to the borrower. <u>Handling of Documents</u> • Mortgagees 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. • This policy includes asset documentation <u>Mortgage Application</u> • The mortgagee <u>**must**</u> have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. This includes borrower self-completed mortgage applications. • Non-Borrowing Spouse Community Property State: o The debt of a Non-Borrowing Spouse <u>**must also be included on the URLA**</u> if the borrower resides in or the property to be purchased is located in a community property state. o The mortgagee <u>**must**</u> obtain a non-borrowing spouse's consent and authorization where necessary to : ▪ Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA). • Mortgage loan applications <u>**must**</u> be executed in the legal names of all parties, including the: o Borrower(s) o Loan Originator • Mortgage applications <u>**must**</u> be executed in the name of one or more <u>**individuals**</u>. <u>This includes trusts.</u> • Government-issued Photo ID: o The mortgagee <u>**must**</u> include a statement that they have verified the borrower's identity using a valid government-issued photo identification prior to endorsement of the mortgage; or o The mortgagee may choose to include a copy of such photo identification in the case binder. <u>Consent of Non-Borrowing Spouse</u> ▪ To perfect a valid first lien under state law, the mortgagee <u>**must**</u> require a non-borrowing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the property. <u>Living Trusts and Security Instruments</u> ▪ The name of the living trust <u>**must**</u> appear on the security instrument, such as the mortgage, deed of trust, or security deed. ▪ The name of the individual borrower <u>**must**</u> appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other borrowers, if any, <u>**must**</u> also appear on the Note with the trust ▪ The name of the individual borrower **is not required to appear on the property deed or title** Impac does not allow electronic signatures on any closing documents. All documents provided at closing for signature <u>**must**</u> have original signatures. A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.
Employment / Income	Verification of Employment • Verbal Verification of Employment • Most recent pay stubs covering 30 consecutive days • Two years W2s • IRS form 4506T A written Verification of Employment (VOE) cannot be standalone documentation (Impac overlay) Reduced documentation eligible if an Approve recommendation is issued by Total Scorecard Form 4506-T <u>**must**</u> be processed prior to underwriting regardless of TOTAL Scorecard recommendation. A new IRS Form 4506 T is required to be signed with the closing package as well as at application even when the form has been processed
Escrow Holdback	Not allowed for refinance transactions Escrow accounts for water purification systems are not allowed (Impac overlay)
Escrow Waivers	Not Permitted
Financing Types	A rate and term refinance allows individuals to refinance their current mortgage and obtain either a lower interest rate and/or change in the term. A rate and term refinance does not allow for removal of equity from the home. However, because closing and other transaction costs are estimated on the Good Faith Estimate, and are subject to

change based on actual fees at loan closing, individuals may receive no more than $500 cash back based on the re-estimation of transaction costs.

Adjusted Value for refinance transactions

- For properties acquired by the borrower within 12 months f 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 acquire by the borrower within 12 months of case number assignment by inheritance or through a gift form 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.

- Term of the new FHA loan can be up to 30 years
- Housing payment may increase without restrictions
- The new FHA loan may include the existing first lien (unpaid principal balance **plus** accrued interest), closing costs (with the exception of a tax service fee and all third party service fees **must** be charged using the actual cost of the service provided) , prepaid expenses, discount points, minus MIP refund (if originally financed in the mortgage)
- One year seasoning from funding on all junior liens unless documentation is provided to verify lien was incurred as part of acquisition or for home improvements of the subject property.
  - Regardless of the age of a HELOC, if draws in excess of $1000 were advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property that portions above and beyond $1000 the line of credit is not eligible for inclusion in the new mortgage.
- New secondary financing is permitted subject to CLTV limits.
- Combined total loan amounts of first and subordinate liens can exceed statutory county loan limit subject to CLTV limits
- If the junior lien is a home equity line of credit, the maximum CLTV is based on the full credit line amount
- Premium pricing permitted
- Refer to "Geographic Locations/Restrictions" for additional state specific restrictions or requirements
- The following guidelines pertain to owner-occupied rate/term refinances for properties in Texas
  - If the first mortgage is subject to Texas Section 50(a)(6), FHA insured financing is not permitted.
  - If an existing second lien is subject to Texas Section 50(a)(6), FHA insured financing is not permitted. Once a cash-out, always a cash-out.
  - The title policy will reference Texas Section 50(a)(6) or Article XVI of the Texas Constitution effective January 1, 1998.
  - When FHA insured financing is permitted, Underwriting conditions and closing instructions **must** indicate "**No Cash back to borrower is permitted**" (not even one dollar is permitted)

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 (e.g., ex-spouse or other co-borrower), the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation.
- The mortgagee **must** obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title-holder.

Refinancing to Pay Off Recorded Land Contracts

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

Cash Back to the Borrower: $500 Limitation

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

Cash Back to the Borrower: Unused Escrow Balance

- 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.

Cash Back to the Borrower: Excess Cash Back

- When costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the borrower at mortgage disbursement, mortgagees may reduce the borrower's outstanding principal balance to satisfy the $500 cash back requirement.
- The mortgagee **must** submit the mortgage for endorsement at the reduced principal amount.

	New York Consolidation, Extension & Modification Agreement (NY CEMA) For all Impac refinance products, property located in the state of New York may be structured as a Consolidation, Extension, and Modification Agreement (CEMA) transaction. The most current version of Fannie Mae/Freddie Mac Uniform Instrument (Form 3172) **must** be used. The following documentation **must** be provided: • NY Consolidation, Extension and Modification Agreement (Form 3172) • Original Note(s) – Original documents signed by the borrower • Gap Note and Gap Mortgage, if applicable • Consolidated Note – Original documents signed by the borrower • Exhibit A – Listing of all Notes & Mortgages being consolidated, extended and modified • Exhibit B – Legal description of the subject property • Exhibit C – Copy of the consolidated Note • Exhibit D – Copy of the consolidated Mortgage Lost Note Affidavits are not an acceptable substitute for any of the required documents. If original documentation cannot be provided per above, then a CEMA is not allowed.
Geographic Locations/ Restrictions, as applicable	Eligible states are as follows: • **Wholesale:** All states (including DC) are eligible except: ○ DE, ME, MA, RI, WY See *New York Consolidation, Extension & Modification Agreement (NY CEMA)* in *Financing Types* section above. Additional restrictions as follows: Hawaiian Lava-Flow Hazard Zones – The U.S. Geological Survey (USGS) categorizes the island of Hawaii into nine "lava zones" based on each zone's probability of exposure to lava flows caused by volcanic eruption. Properties in lava zones 1 and 2 are not eligible for loans funded or purchased by Impac Mortgage Corp. due to increased risk of property destruction from lava flows within these areas. The Hawaii Lava-Flow Hazard Zone Map can be accessed at: http://hvo.wr.usgs.gov/hazards/FAQ_LavaFlowHazardZone/ and http://pubs.usgs.gov/mf/1992/2193/ Texas Cash-out 50(a)(6) is ineligible State specific regulatory requirements supersede all underwriting guidelines set forth by Impac.
High-Cost Mortgage Loans	Impac does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)

Income	Self-Employment Income (TOTAL and Manual)
	• Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest. There are four basic types of business structures. They include:
	    ○ sole proprietorships;
	    ○ corporations;
	    ○ limited liability or "S" corporations; and
	    ○ partnerships.
	• Minimum Length of Self-Employment
	    ○ The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years.
	    ○ If the Borrower has been self-employed between one and two years, the Mortgagee 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 years.
	• 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 decline in Effective Income over the analysis period, the Mortgagee **must** downgrade and manually underwrite.
	        ▪ **For a Manual Underwrite,** if the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the mortgagee **must** document that the business income is now stable. A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee 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.
	• Required Documentation
	    ○ (TOTAL) Individual and Business Tax Returns - The Mortgagee **must** obtain complete individual federal income tax returns for the most recent two years, including all schedules. The Mortgagee **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, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

- (Manual) Individual and Business Tax Returns - The Mortgagee **must** obtain signed, completed individual and business federal income tax returns for the most recent two years, including all schedules. In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.
- (TOTAL and Manual) Profit & Loss Statements and Balance Sheets - The Mortgagee **must** obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. **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.

- Calculation of Effective Income - The Mortgagee **must** analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in HUD Manual 4000.1, Appendix 2.0 – *Analyzing IRS Forms.*
  - The Mortgagee **must** calculate gross Self-Employment Income by using the lesser of:
    - the average gross Self-Employment Income earned over the previous two years; or
    - the average gross Self-Employment Income earned over the previous one year.

Question: If a loan application is dated May 1st and the last tax filing was for the previous calendar year, do we need a year-to-date Profit and Loss statement for a self-employed borrower?
Answer: Yes, no more than one calendar quarter may elapse without income documentation.

Mortgage Credit Certificates (MCC) are not allowed for qualifying income.

Frequent Changes in Employment (TOTAL and Manual)
If the Borrower has changed jobs more than three times (i.e., more than 4 jobs) in the previous 12-month period, or has changed lines of work, the Mortgagee **must** take additional steps to verify and document the stability of the Borrower's Employment Income. The Mortgagee **must** obtain:

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

Gaps in Employment (TOTAL and Manual)
For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:

- 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.

Addressing Temporary Reduction in Income (TOTAL and Manual)
For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:

- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.

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

For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.

Required Documentation - The Mortgagee **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 FHA guidelines, used to supplement the Borrower's income through intended date of return to work with current employer.

Overtime and Bonus Income (TOTAL and Manual)

- The Mortgagee may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.
- Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
- For employees with Overtime or Bonus Income, the Mortgagee **must** average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the Mortgagee **must** use the current year's income.

Part-Time Employment (TOTAL)

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.

- The Mortgagee 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 years and the current position is reasonably likely to continue.
- The Mortgagee **must** average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use a 12-month average of hours at the current pay rate.

Disability Benefits (TOTAL and Manual)

- The Mortgagee **must** verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee **must** obtain documentation that establishes award benefits to the Borrower.
- If any disability income is due to expire within three 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, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee 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 the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.**

Social Security Disability (TOTAL and Manual)

- For Social Security Disability income, including Supplemental Security Income (SSI), the Mortgagee **must** obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:
  - federal tax returns;
  - the most recent bank statement evidencing receipt of income from the SSA;
  - a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
  - a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

VA Disability - Form 26-8937 is not required – Temporary Waiver (TOTAL and Manual)

- FHA is **temporarily waiving its requirement** for mortgagees to obtain VA Form 26-8937, *Verification of VA Benefits*, when documenting a borrower's VA disability benefits. The waiver will remain in place until FHA communicates any changes in the waiver's status in the future. FHA still requires proof from one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the VA.

Private Disability (TOTAL and Manual)

- For private disability benefits, the Mortgagee **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.

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

The Mortgagee **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, the Mortgagee **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.
- The Mortgagee **must** document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
- The Mortgagee **must** provide evidence that the claimed income will continue for at least three years.
- The Mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
- When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, the Mortgagee may use the current payment to calculate Effective Income.
- When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, the Mortgagee may use the current payment to calculate Effective Income.
    - If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, the Mortgagee **must** use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, the Mortgagee **must** use the average over the time of receipt.

Military Income (TOTAL and Manual)

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

The Mortgagee **may not use military education benefits** as Effective Income.

The Mortgagee **must** obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee **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.

Non-Taxable Income (Grossing Up) (TOTAL and Manual)

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.

The Mortgagee **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.

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

Rental Income – Property Being Vacated by the Borrower (TOTAL and Manual)

If Rental Income is being derived from the Property being vacated by the Borrower, the Borrower **must** be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The Mortgagee **must** obtain:

- **A lease agreement of at least one year's duration after the Mortgage is closed**
- Evidence of the payment of the security deposit or first month's rent
- An appraisal evidencing market rent and that the borrower has at least 25 percent equity in the property
    - The appraisal is not required to be completed by an FHA Roster Appraiser

Rental Income – HOC Vacancy and Maintenance Factor
Note: FHA no longer uses a variable HOC-specific vacancy and maintenance factor. It is now fixed at 25%.

Rental Income Received from Subject Property (TOTAL)
Rental Income Two- to Four-Units
The Mortgagee **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.

- Calculation of Effective Income - The Mortgagee **must** add the net subject property Rental Income to the Borrower's gross income. The Mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income. To calculate the effective income the Mortgagee **must** use:
    - the monthly operating income reported on Freddie Mac Form 998; **or**
    - 75 percent of the lesser of:
        - fair market rent reported by the Appraiser; or
        - the rent reflected in the lease or other rental agreement.

See *Property Types / Eligible 3-4 Units / Self-Sufficiency Rental Income Eligibility* for loan restrictions on 3-4 unit properties.

Rental Income from Other Real Estate Holdings (TOTAL)
Limited or No History of Rental Income
Where the Borrower does not have a history of Rental Income for the Property since previous tax filing, including Property being vacated by the Borrower, the Mortgagee **must** obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the Property. The appraisal is not required to be completed by an FHA Roster Appraiser.

- Two- to Four-Units
  The Mortgagee **must** verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.
- One Unit
  The Mortgagee **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.

Calculation of Effective Net Rental Income (limited or no history)
To calculate the effective net Rental Income from other real estate holdings where the Borrower does not have a history of Rental Income since the previous tax filing, the Mortgagee **must** deduct the Principal, Interest, Taxes, and Insurance (PITI) from the lesser of:

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

History of Rental Income
The Mortgagee **must** obtain the Borrower's last two years' tax returns with Schedule E.
Calculation of Effective Net Rental Income (with history of net rental income)

- The Mortgagee **must** calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.
- Depreciation shown on Schedule E may be added back to the net income or loss.
- If the Property has been owned for less than two years, the Mortgagee **must** annualize the Rental Income for the length of time the Property has been owned.
- For Properties with less than two years of Rental Income history, the Mortgagee **must** document the date of acquisition by providing the deed, Settlement Statement or similar legal document.
- Positive net Rental Income **must** be added to the Borrower's Effective Income. Negative net Rental Income **must** be included as a debt/liability.

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

- Required Documentation - The Mortgagee **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, the Mortgagee **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, the Mortgagee **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).
(3) If any income from the SSA is due to expire within three 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, the Mortgagee **must** consider the income effective and reasonably likely to continue. The Mortgagee 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.

The Mortgagee **must** use the current amount of Social Security Income received to calculate Effective Income.

Pension (TOTAL and Manual)

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

- Required Documentation - The Mortgagee **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 years. The Mortgagee **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.
- The Mortgagee **must** use the current amount of Pension income received to calculate Effective Income.

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

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

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

Capital Gains and Losses (TOTAL and Manual)

Capital gains or losses **must** be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

- Required Documentation - Three years' tax returns are required to evaluate an earnings trend. If the trend:
  - results in a gain, it may be added as Effective Income; or
  - consistently shows a loss, it **must** be deducted from the total income.

Commission Income (TOTAL and Manual)

The Mortgagee 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.

- Required Documentation
  - For Commission Income less than or equal to 25 percent of the Borrower's total earnings, the Mortgagee **must** use traditional or alternative employment documentation.
  - For Commission Income greater than 25 percent of the Borrower's total earnings, the Mortgagee **must** obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.
- The Mortgagee **must** calculate Effective Income for commission by using the lesser of
  - the average net Commission Income earned over the previous two years, or the length of time

Commission Income has been earned if less than two years; or
- the average net Commission Income earned over the previous one year.

The Mortgagee **must** calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

The Mortgagee **must** reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review HUD Manual 4000.1, Appendix 2.0 – *Analyzing IRS Forms.*

Expected Income (TOTAL and Manual)
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.
- The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.
- Required Documentation - The Mortgagee **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.
  For expected Retirement Income, the Mortgagee **must** verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.
- Income is calculated in accordance with the standards for the type of income being received. The Mortgagee **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.

Internet Links

To access Mortgagee Letters, Handbooks, Webinars, and multiple resources, go to FHA Lenders page: **http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender**

FHA FAQs may be accessed at: **http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ**

Mortgage Insurance

Mortgage Insurance is required on all loans.
- Refer to the attached chart for details on UFMIP and monthly MIP)
- The section of the Act under which the loan will be insured determines the mortgage insurance to be used.

Sections 203b, and 234c (Condos)
- Up Front MIP (UFMIP) is required
- Monthly MIP is required
- Refer to the attached chart for details on UFMIP and monthly MIP

Upfront Mortgage Insurance Premium (UFMIP) Refunds
If the Borrower is refinancing their current FHA-insured Mortgage to another FHA-insured Mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced Mortgage, according to the refund schedule shown in the 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

Occupancy

Primary Residence
Rate and Term refinance transactions are only permitted on owner-occupied principal residences.

The mortgagee **must** review the borrower's employment documentation or obtain utility bills to evidence the borrower currently occupies the property and determine the length of time the borrower has occupied the subject property as their principal residence.

Prepayment Penalty

Not permitted. However, if refinancing and the payoff check for the existing loan is not received by the servicing lender by the first day of the month, the lender may collect interest on the existing loan through the end of the month.

Program Exclusions

HUD Section 184 Indian Home Loan Guarantee Program
HUD Section 247 Hawaiian Home Lands
HUD Section 248 Mortgages on Indian Land
Assumptions of existing FHA loans
Energy Efficient Mortgage Program
FHA Construction Financing – One time close (OTC) construction to permanent mortgages
Mortgage Credit Certificates – may not be used for qualifying income
Back to Work – Extenuating Circumstances Policy – not allowed
Refinance of Borrowers in Negative Equity Positions (aka Short Refinance)
Refinance of existing Section 235 Mortgage
PACE (Property Assessed Clean Energy) loans (aka HERO loans, etc)
- Refinance of loans with existing HERO/PACE liens (unless those liens are completely paid off at closing)

	(**Note: This is not an overlay. Per Santa Ana HOC, FHA will not insure loans with existing HERO/PACE liens**.)

Property Types	**Eligible:**
	• 1-2 units
	• 3-4 units
	    • Self-Sufficiency Rental Income Eligibility
	    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).
	    • The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.
	    • 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 of the fair market rent.
	• PUDs
	• Modular Pre-Cut/Panelized housing
	• Condos
	    ○ **Must** be on FHA approved list and meet the guidelines as determined by the Loan-level certification for Individual Unit Financing process
	    ○ Subject project **must** be reviewed for project approval. See HUD Review and Approval Process (HRAP) and Direct Endorsement Lender Review and Approval Process (DELRAP),
	    ○ If not approved, loan is only eligible for streamline refinance transactions per FHA
	    ○ Site Condos do not require condominium project approval
	
	Ineligible:
	• Manufactured Homes
	• Condo Hotels
	• Co-ops
	• Leasehold
	• Properties located within designated Coastal Barrier Resource System (CBRS) areas.
	• Properties that require water purification systems are ineligible (Impac overlay)

Qualifying Rate and Ratios	Qualify at the note rate (fixed rate loans and hybrid ARMs, including 3/1 and 5/1) **Ratios** AUS approved – ratios evaluated by AUS AUS Refer may be manually underwritten so long as loan is "eligible" (e.g., Refer/Eligible)

Simple Refinance	**Note: FHA Simple Refinance has MI premiums similar to FHA Streamline – see *FHA Mortgage Insurance Premium Matrix***
	
	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. This is a fully credit qualifying loan with appraisal.
	
	The lender **must** obtain a refinance authorization number from FHA Connection for all FHA-to-FHA refinances.
	
	At least one borrower on the refinancing mortgage **must** hold title to the property being refinanced prior to case number assignment.
	
	Simple Refinance is only permissible for owner-occupied principal residences. Lender **must** review the borrower's employment documentation or obtain utility bills to evidence the borrower currently occupies the property as their principal residence.
	
	Payment History Requirements (Manually Underwritten)
	For manually underwritten mortgages with
	• less than six months of mortgage payment history, the borrower **must** have made all payments within the month due.
	• Greater than six months history, the borrower **must** have made all mortgage payments within the month due for the six months prior to case number assignment and have no more than one 30-day late payment for the previous six months for all mortgages. The borrower **must** have made the payments for all mortgage secured by the subject property for the month prior to mortgage disbursement.
	
	Calculating Maximum Mortgage Amount for Simple Refinance Transactions
	The maximum mortgage amount for a Simple Refinance is:
	• the lesser of:
	    ○ the Nationwide Mortgage Limit (aka county loan limits);
	    ○ 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).
	
	Borrower may not receive more than $500 cash back at mortgage disbursement. When the estimated costs utilized in calculating the maximum mortgage amount result in greater than $500 cash back to the borrower at mortgage disbursement, the lender may reduce the borrower's outstanding principal balance to satisfy the $500 cash back requirement.

Special Requirements/ Restrictions	• Standard MIP guidelines apply • Evidence of a valid Social Security Number is required on all loans • A copy of the social security card or other documentation such as recent pay stub, W2, or tax transcript can be used to validate the social security number. • Evidence of FHA Refinance Authorization data (for FHA to FHA only)and New Case Number obtained from FHA Connection (Print screens and place in loan file) • Check current **deed or title** to verify **all** current borrowers are listed as owners (one year ownership guideline may apply). • Evidence no change in name of street, zip code or re-zoning occurred since the last FHA transaction. (Copy of NOTE or letter from municipality notifying borrower of address re-naming, etc) • Good Faith Estimate • URLA and signed HUD Addendum • FHA Loan Underwriting and Transmittal Summary, HUD Form 92900-LT signed by DE Underwriter • FHA Maximum Mortgage Calculation Worksheet • CAIVRS, GSA, LDP, Procurement/Non-procurement information **<u>must</u>** be checked. • Important Notice to Homebuyer Informed Consumer Choice Disclosure Notice • Flood Certificate Copy of the Settlement Statement is always required. **Adding Co-borrowers** • May add a co-borrower or non-occupant co-borrower
Temporary Interest Rate Buydowns	Temporary interest rate buydowns are not permitted with refinance transactions

Underwriting	Loans **<u>must</u>** be underwritten by a DE Underwriter
	
	The mortgagee **<u>must</u>** obtain **the borrower's initial completed *signed* URLA** (Fannie Mae Form 1003/Freddie Mac Form 65) and Page 2 of form HUD-92900-A ***before*** **underwriting** the mortgage application.
	
	May follow AUS Approve decision and documentation requirements and these guidelines
	    • Refer to *Credit* for additional restrictions
	
	AUS (TOTAL Scorecard)
	• All loans **<u>must</u>** be submitted thru FHA TOTAL Scorecard
	• AUS Approve – All loan data submitted to AUS for Approved/Accept Finding **<u>must</u>** be accurate and validated
	• AUS Refer - Loan **<u>must</u>** meet manual underwriting guidelines.
	
	Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)
	The mortgagee **<u>must</u>** downgrade and manually underwrite any mortgage that received an Accept recommendation if:
	• The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard
	• Additional information, not considered in the AUS recommendation affrects the overall insurability of the mortgage
	• The borrower has $1,000 or more collectively in <u>disputed derogatory credit accounts</u>
	    o Disputed derogatory accounts of a <u>non-borrowing spouse</u> in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a REFER.
	• The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment
	• The case number assignment date is within three years of the date of the transfer of title through a Pre-

Foreclosure Sale (Short Sale)

- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure
- The borrower has undisclosed mortgage debt that requires a downgrade
  When an existing debt or obligation that is secured by a mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the lender **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
  - 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.
- Business income shows a greater than 20 percent decline over the analysis period
- The mortgage payment history requires a downgrade as defined in Housing Obligations/Mortgage Payment History
  - Purchase and No Cash-Out Refinance: The mortgage **must** be downgraded to a REFER and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:
    - Three or more late payments of greater than 30 days;
    - One or more late payments of 60 days plus one or more 30-day late payments; or
    - One payment greater than 90 days late

    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
  - Cash-Out Refinance Transactions: The mortgage **must** be downgraded to a REFER and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:
    - A current delinquency; or
    - Any delinquency within 12 months of the case number assignment date.

    A mortgage that has been modified **must** utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments

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

Underwriting method is either via TOTAL Scorecard or Manual Underwriting. These methods are mutually exclusive. Files are underwritten 100% with the selected/required method. There is no "mixing and matching" portions of a TOTAL Scorecard approval with Manual Underwriting flexibilities and vice-versa. If the mortgage application **must** be manually downgraded, the lender **must** cease its use of the AUS and **comply with all requirements for manual underwriting** when underwriting a downgraded mortgage.

Approvable Ratio Requirements (Manual Underwriting)

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.

Manual Underwriting Matrix		
Lowest Minimum Decision Credit Score	**Maximum Qualifying Ratios (%)**	**Acceptable Compensating Factors** (see info below table for documentation)
500-579 (not allowed by Impac) 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.
580 and above	31/43	No compensating factors required
580 and above	37/47	**One** of the following: • 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: • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

Documenting Acceptable Compensating Factors (reference the above table) (Manual)
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).**

Reserves are calculated as the Borrower's liquid assets as described in FHA guidelines less:

- the total funds required to close the Mortgage. Reserves do not include:
  - gifts;
  - borrowed funds from any source; and
  - cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

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, 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 Mortgagees 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.

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.

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:

- the Mortgagee **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.

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.

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.

If available, Mortgagees **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, Mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, Mortgagees **must** multiply the Gross Living Area of the Property by the maintenance and utility factor found in the Lenders Handbook - VA Pamphlet 26-7.

Using Residual Income as a Compensating Factor - To use residual income as a compensating factor, the Mortgagee **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 - The Mortgagee 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.

Compensating factors cited to support the underwriting decision **must** be recorded in the *Underwriter Comments* section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Documentation supporting the compensating factors cited **must** be included in the endorsement case binder including, if applicable, a worksheet attached to Form HUD-92900-LT reflecting the calculation of residual income

HUD Handbook 4000.1
Appendix 1.0 – MORTGAGE INSURANCE PREMIUMS (09/14/15)

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 175 basis points (bps) (1.75% of the Base Loan Amount.

Annual Mortgage Insurance Premium (MIP)			
Applies to all Mortgages except: • Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009			
Mortgage Term of More Than 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than $625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term
Mortgage Term of Less than or Equal to 15 Years			
Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than $625,500	≤ 78,.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

Simple Refinance:

For refinance of previous Mortgage endorsed on or before May 31, 2009 UFMIP: 1 (bps) (.01%) All Mortgages			
All Mortgage Terms			
Base Loan Amount	**LTV**	**Annual MIP (bps)**	**Duration**
All	≤ 90.00%	55	11 years
	> 90.00%	55	Mortgage term
For Mortgages where FHA does not require an appraisal, the value from the previous Mortgage is used to calculate the LTV.			

FHA MAXIMUM MORTGAGE CALCULATION WORKSHEET

Rate & Term Refinance Transactions

Borrower Name(s):		IMPAC Loan #:	FHA Case #:
Step One: National Mortgage Limit			
1.	Nationwide Mortgage Limit for the area (MSA or county)	$	
2.	**TOTAL**	**1.**	**$**
Step Two: Sum of Existing Debt and Costs Associated with Transaction			
1.	Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	$	
2.	Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	$	
3.	Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 within last 12 months for purposes other than repairs – then not eligible	$	
4.	Ex-Spouse or co-borrower equity acceptable to FHA guidelines	$	
5.	Prepayment penalties	$	
6.	Late charges	$	
7.	Escrow Shortgages	$	
8.	Plus 30 days interest from current monthly payment (if due)**	$	
9.	Plus Cost of repairs if required by appraiser	$	
10.	Plus Accrued Late Charges	$	
11.	Borrower paid costs associated with new mortgage	$	
12.	Borrower paid repairs required by appraisal	$	
13.	**If paying off an FHA Mortgage** Upfront Mortgage Insurance Refund (-)	$	
15.	**TOTAL**	$	
		2.	**$**
Step Three: Loan to Value			
1.	Adjusted Value		
	x LTV Factor (see below): **97.75%** - Occupied as principal residence for 12 months **<u>or</u>** occupied since acquisition if acquired within 12 months **85%** - Occupied as principal residence fewer than 12 months **<u>or</u>** if owned less than 12 months and has not occupied the property for that entire period of ownership.		
		3.	**$**
Step Four: Maximum Loan Amount			
1.	The maximum mortgage amount is the lesser of: Step 1, Step 2, or Step 3	$	
2.	**Maximum Base Mortgage:**	**4.**	**$**
	Plus UFMIP	$	(Maximum Base Mortgage x **UFMIP factor based on when case # was ordered – refer to UFMIP chart)**
	TOTAL NEW MORTGAGE AMOUNT:		