HOUSING AND URBAN DEVELOPMENT

FHA TOTAL Mortgage Scorecard User Guide

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INTRODUCTION

This User Guide is to assist lenders using the Federal Housing Administration's (FHA) *Technology Open To Approved Lenders* (TOTAL). TOTAL works in conjunction with various automated underwriting systems (AUS). TOTAL evaluates the overall creditworthiness of the applicants based on a number of credit variables and determines an associated risk level of a loan's eligibility for insurance by FHA. It is FHA's policy that no borrower is to be denied a FHA-insured mortgage based solely on a risk assessment generated by TOTAL.

TOTAL does not:

- reject applications,
- review the loan for compliance,
- review maximum mortgage amounts,
- compute debt-to-income ratios,
- review property eligibility,
- determine LTV, or
- complete additional functions typically performed by an AUS.

The agency requires that all transactions be scored through TOTAL except transactions involving borrowers without credit scores and streamline refinance transactions. TOTAL was never intended to be used for streamlines and the results are considered invalid. Therefore, lenders should not use TOTAL on streamline refinance transactions. If a scoring event does transpire on a streamline refinance transaction, the results of the scoring event are not relevant.

The mortgage credit portion of the loan application that receives an "accept" or "approve" recommendation (AUS's may use either term) need not be reviewed by a Direct Endorsement (DE) Underwriter. In addition, neither the Loan Transmittal and Underwriting Summary (HUD-92900-LT) nor the DE Approval (HUD-92900-A, page 3) needs to indicate the underwriter's Computerized Homes Underwriting Management System (CHUMS) identification number. Instead, these documents will show the identification number assigned by FHA to the AUS who is interfaced with TOTAL that provides the feedback to the lender. However, a DE underwriter must underwrite the appraisal according to standard FHA requirements regardless of the credit risk determined by TOTAL.

Each AUS using TOTAL produces a document that provides the results of the credit risk evaluation to the lender. The feedback document upon which the lender makes its credit decision (the result from the last scoring event) must be included in the case binder submitted to FHA for insurance purposes regardless of the credit risk evaluation. The feedback document must identify the credit report utilized for the scoring event. The feedback document is to be the first document on the right-hand side of the case binder.

The lender remains accountable for compliance with FHA eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered in this User Guide. A DE underwriter must fully underwrite those applications where TOTAL issues a "refer" and the loan application are forwarded to a DE underwriter for review and compliance with the underwriting requirements described in:

- Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1
- Handbook 4155.2, Lenders Guide to the Singe Family Mortgage Insurance Process at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.2
- Mortgagee Letters at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm

Chapter Overview

Chapter 1 of this User Guide describes the process for submitting loans, the programs, and property types eligible for risk assessment by TOTAL, and data integrity. Chapter 2 describes underwriting issues, documentation requirements for loans rated as "accept" or "approve", details system overrides and manual downgrades. Chapter 3 briefly describes mortgage endorsement procedures.

Use of the TOTAL Scorecard User Guide

For ease of reading, we have chosen to use "lender" in lieu of "mortgagee" throughout this User Guide. The definition of lender is to be interpreted as an FHA-approved mortgagee as described in 24 CFR § 202.2.

For information on topics that are not addressed in this guide, refer to

- Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.1
- Handbook 4155.2, Lenders Guide to the Singe Family Mortgage Insurance Process at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4155.2
- Mortgagee Letters at http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm

The User Guide only provides guidance to the industry on the use of TOTAL. It is the lenders' responsibility to remain current on all FHA policies pertaining to Single Family Programs.

CHAPTER 1

LOAN SUBMISSION REQUIREMENTS

Typically, the Loan Origination System (LOS) and the AUS will determine the field names and the entry of the data elements.

Lenders Responsibility for Accuracy of Data Entry

The lender is responsible for the integrity of the data elements entered into the AUS to ensure the outcome of the mortgage credit risk evaluation performed by TOTAL is valid.

Data Entry Requirements to Identify a Sponsored Origination/Third Party Origination

As of October 4, 2010, TOTAL allows entry of the sponsored originator's Employer Identification Number (EIN). Loan origination companies acting as sponsored originators are able to access TOTAL through any AUS that is integrated with TOTAL. If the AUS is able to send the sponsored originator's EIN, the AUS should transmit the sponsored originator's EIN into the Sponsored Originator EIN data field. If the AUS is unable to transmit the EIN number, the following number should be transmitted in the Lender ID field, "6999609996". Either the Lender ID or the Sponsored Originator EIN must be sent in the request to TOTAL. If neither or both are submitted, TOTAL will return an approved error code with instructions to address the error.

Basic Information on FHA Standards and Definitions

Lenders must check their AUS vendor's user guides to verify the products and programs that are supported. The AUS proprietary user guide will also provide the requirements for data input specifics.

The instructions below are to provide lenders with basic information on FHA standards and definitions.

Property and Program Eligibility

To obtain a credit risk assessment from TOTAL, the loan must meet the following FHA eligibility criteria:

Loan Purpose

- Purchase Money Mortgage
- Construction-to-Permanent Mortgages
- Regular Refinance with Credit Qualifying
- Cash-Out Refinances
- Streamline Refinance (results of the scoring event should be ignored)

- Credit Qualifying Assumptions

FHA Insurance Product

- 203(b)---Standard FHA product for detached and attached dwellings
- 203(h)---Mortgages for Disaster Victims
- 234(c)---Unit Mortgages in Condominium Projects
- 203(k)---Rehabilitation Mortgage Insurance
- 251---Adjustable Rate Mortgages (ARM)
- Energy Efficient Mortgages (EEM)
- Section 247---Hawaiian Home Land mortgages

Property Types

- Single family dwellings of 1 to 4 living units
- Manufactured homes meeting requirements for the Title II mortgage insurance program
- Units in Low and High Rise Condominium Projects

Plan Type

- All Fixed Rate Mortgages
- Adjustable Rate Mortgages, including 1 year and hybrid of 3, 5, 7, and 10 years

Loan Application Information and Definitions

The Uniform Residential Loan Application (URLA) captures most of the information needed to obtain a risk assessment from TOTAL. A completed URLA is required for all FHA insured mortgages. The following guidance is to ensure that information entered into the LOS/AUS meets FHA eligibility criteria. Income, assets, debts, and any other credit variables entered into the AUS to obtain a risk evaluation using TOTAL must meet FHA's requirements.

Type of Mortgage and Terms of Loan/Section I of the URLA

Section I of the URLA captures data on the Type of Mortgage and Terms of the Loan. The interest rate at which the loan will close is to be entered in the AUS for qualifying purposes except for 1 year ARMS. 1year ARMS are to be qualified at one percentage point above the initial rate if the loan-to-value equals or exceeds 95 percent.

Property Information/Section II

Section II of the URLA captures information about the property and purpose of the loan. Because the maximum insured mortgage is based upon the location and the number of units of the property, users must enter the property county and state as listed in the AUS vendor's Maximum Mortgage Limit Table (if provided by the AUS vendor).

Borrower Information/Section III

A 2 year residency history is required for all borrowers.

Employment Information/Section IV

A 2 year employment history is required for all borrowers.

Income and Principal, Interest, Taxes and Insurance (PITI) Information/Section V

It is the responsibility of the lender to ascertain that all income entered into the AUS for risk assessment purposes meets FHA's requirements for qualifying income. These requirements are outlined in HUD Handbook 4155.1, Mortgagee Letters, and policy guidance.

PITI consists of the items listed below:

- Principal and Interest,
- Real Estate Taxes,
  Note: If proposed construction, base estimate on property being completed and valued/reassessed by the taxing authority.
- Hazard Insurance Premiums,
- Monthly FHA Mortgage Insurance Premiums,
- Flood Insurance,
- Ground Rent,
- Homeowner's Association Dues/Condominium Fees,
- Other property related special assessments, and
- Subordinate Financing payments scheduled to begin within 3 years of loan closing.

Adjustable Rate Mortgage (ARM)

If the mortgage being underwritten is a 1 year ARM with a loan-to-value (LTV) ratio equal to or greater than 95 percent, calculate the Principal and Interest using a rate 1 percentage point above the loan's initial interest rate. FHA's 3, 5, 7, and 10 year ARMs are to be underwritten at the loan's initial interest rate.

Energy Efficient Mortgage (EEM)

If the mortgage being underwritten is an *Energy Efficient Mortgage* (EEM), and the AUS does not separately accommodate such mortgages, use the following instructions for underwriting these loans.

If the lender obtains an "accept" or "approve" on a mortgage loan application prior to adding the energy efficient improvements, FHA will recognize the risk rating from the AUS and permit the increased mortgage payments without re-underwriting or re-scoring *provided* that the lender's DE underwriter certifies on the Loan Transmittal and Underwriting summary (HUD-92900-LT) they have reviewed:

- the calculations associated with the energy efficient improvements,
- the acceptability of the improvements being declared energy efficient, and
- the transaction meets the program requirements.

Assets/Section VI

It is the responsibility of the lender to ascertain that all asset information entered into the AUS must be verifiable and meet FHA requirements for eligibility as disclosed in the:

- HUD Handbook 4155.1,
- Applicable Mortgagee Letters, and
- Chapter 2 of this Guide.

Verified reserves after closing are not a requirement for FHA insuring except on 3 and 4 unit properties; however, these reserves are considered in the mortgage credit risk evaluation. This information should be entered in the appropriate field of the AUS for consideration.

Liabilities Section VI

The lender is responsible to include the following liabilities, if applicable, in the AUS for Totals' risk evaluation. Refer to FHA's credit policies as described in HUD Handbook 4155.1.

- Debts disclosed on the borrower's credit report
- Debts disclosed on the borrower's mortgage loan application
  - Alimony, child support, and separate maintenance agreements
    Note: Because of the tax treatment of alimony, the lender may reduce the borrower's monthly gross income by the amount of the alimony payments rather than include it as a debt obligation. If this option is chosen, do not also include the alimony payment as a liability.
  - Negative Rent on other real estate owned
  - Mortgage Debt (PITI) on other real estate owned
  - Installment debt
    Note: Installment debts with fewer than ten payments remaining may be excluded from the ratio calculations. However, if the AUS indicates that manual underwriting is required, then the DE underwriter must determine that short-term debt will not negatively affect the borrower's ability to make mortgage payments during the early months following loan settlement. See HUD Handbook 4155.1 for additional information.
  - Significant debt payment (greater than $100 per month) not shown on the credit report or the application
  - Payment from any new debt resulting from "material inquiries" on the credit report within 90 days of application.
    Note: Material inquiries" are inquires which may potentially result in obligations incurred by the mortgage borrowers for other mortgages, auto loans, leases, or other installment loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered "material inquiries".

- Debts of a non-purchasing spouse ***must*** be included in the borrower's qualifying ratios if the borrower resides in a community property state, or the property being insured is located in a community property state, except for obligations specifically excluded by state law.

Refer to HUD Handbook 4155.1 for exceptions and additional underwriting requirements for borrower liabilities.

Loan Resubmission Requirements

The lender is responsible for the integrity of the data used to obtain the risk assessment, and for resubmitting the loan when material changes are discovered or otherwise occur before loan closing. The lender is required to resubmit the loan through the AUS for an updated risk evaluation under any of the conditions described below:

- Borrowers were either added to or deleted from the loan application
  Note: The borrowers that appear on the most recent credit risk evaluation must be the same borrowers who sign the mortgage note/deed of trust.
- Changes to the sales price
- Changes to the terms
- Any changes that are discovered that would negatively affect the borrowers' ability to repay the mortgage
- Information about the property valuation changes
  (e.g., the appraised value is determined to be less than the sales price).
- Borrower's income decreased
- Borrower's cash reserves decreased

Tolerance Levels for Resubmission Requirements

FHA recognizes minor differences may occur between what the borrower reports at the time of loan application and what is verified. In these cases, rarely would the difference between data entered into TOTAL and information verified by the lender result in a change in the risk classification.

Therefore, the following tolerances are permitted to the loan resubmission requirements. There is no need to resubmit the mortgage to TOTAL for rescoring provided the:

- **Cash Reserves** verified are not more than 10 percent less than that reported by the borrowers on the loan application.
- **Income** verified is not more than 5 percent less than that reported by the borrowers on the loan application.
- **Tax and Insurance Escrows** estimates used at scoring and later verified at or near loan settlement do not result in more than a 2 percentage point increase in the payment- to-income and debt-to-income ratios.

CHAPTER 2

UNDERWRITING REQUIREMENTS

The underwriting and documentation instructions contained throughout this chapter are designed for lenders using TOTAL. This chapter describes how lenders may use TOTAL for mortgage loans scored as “accept” or “approve”. FHA has granted a number of credit policy revisions and documentation relief from the requirements listed in the HUD Handbook 4155.1 as described below. Lenders must still comply with outstanding eligibility requirements and ensure the accuracy of the data used to render a credit risk decision. Loan applications receiving a “refer” risk classification are required to be evaluated by a DE underwriter per FHA’s credit policies as described in HUD Handbook 4155.1.

Credit and Capacity to Repay Evaluation

TOTAL evaluates the borrower’s credit history, income, cash reserves, and other components of creditworthiness. Upon the evaluation, TOTAL will determine if the borrower is an acceptable mortgage credit risk and may be processed with reduced documentation, or refers the loan application to a DE underwriter for review and evaluation.

TOTAL evaluates the borrower’s credit and capacity to repay the mortgage by reviewing:

- Adequacy of Income;
- Monthly housing expense;
- Credit score (FICO score);
- Credit History;
- Loan-to-value ratio (LTV);
- Loan term;
- Funds to close; and
- Cash reserves.

Risk Classification and Related Responsibilities

Lenders should also refer to the user guides developed by the AUS vendor. However, any feedback messages provided by the AUS vendor do not supersede the written guidelines issued by FHA in this User Guide, Mortgagee Letters, Agency Handbooks, and any other applicable agency policies.

“Accept” or “Approve”

If TOTAL rates the mortgage loan application as an “accept” or “approve” based on the analysis of the credit, capacity to repay, and certain other loan characteristics the loan is eligible for FHA’s insurance endorsement provided:

- the data entered into the AUS are true, complete, properly documented, and accurate;

and
- o the entire loan package meets all FHA requirements.

FHA requires adherence to all eligibility rules and the documentation requirements described elsewhere in this User Guide, HUD Handbook 4155.1, Mortgagee Letters, and any applicable policies. The DE underwriter may substitute the CHUMS identifier provided as feedback by TOTAL for their personal CHUMS identification number on the Loan Transmittal and Underwriting Summary (HUD-92900-LT) or the DE Approval (HUD-92900-A, page 3).

"Approve/Ineligible" Recommendations

For mortgage loan applications that receive an "approve/ineligible" recommendation, it has been determined that the borrower's credit and capacity meets TOTAL's threshold but does not meet certain FHA program eligibility requirements. The AUS will provide detailed information advising why the loan did not meet FHA's eligibility requirements. Typical reasons for an "approve/ineligible" recommendation may include:

- Loan amount exceeds the FHA Statutory loan limits;
- Property type submitted does not correspond to the Section of the Act selected in the AUS;
- Insufficient reserves on a 3- or 4-unit property; and
- Insufficient funds for closing.

Loans that receive a recommendation of "approve/ineligible" may still be eligible for FHA insurance. To achieve eligibility status, the lender must analyze the feedback certificate and determine if the reason for the ineligibility is one that can be resolved in a manner complying with FHA underwriting requirements. The lender must document the circumstances or other reasons that were evaluated in making the decision to approve the loan in the remarks section of the Loan Transmittal and Underwriting Summary (HUD-92900-LT). The lender is not required to re-underwrite the entire loan; however, the lender must address each reason the loan received an "ineligible" recommendation with documentation and provide an explanation for the reason why the transaction is now eligible for FHA insurance. Loans that receive a recommendation of "approve/ineligible" will receive the benefit of all other "accept" or "approve" documentation and credit policy. The CHUMS identifier issued by TOTAL (i.e. ZFHA) is to be used as the underwriter on the Loan Transmittal and Underwriting Summary (HUD-92900-LT) for mortgage risk evaluations classified as "approve/ineligible."

The lender may need to correct the issue(s) that caused the loan to be "ineligible" and resubmit the loan to attempt to obtain an "eligible" result.

"Refer"

The lender must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a "refer" rating. The DE underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements. It is FHA policy that no borrower be denied a FHA insured mortgage loan solely based on a risk assessment generated by TOTAL.

System Overrides

A system override occurs when a loan application variable triggers a requirement (a “Review Rule”) that a DE underwriter is required to review the loan file.

Review Rules for TOTAL are limited to:

- excessive qualifying ratios;
- a previous mortgage foreclosure within 3 years;
- a bankruptcy discharged within 2 years, and
- late mortgage payments.

  Note: TOTAL will “refer” the application for underwriting analysis if any mortgage trade line during the most recent 12 months reflects:

  - 3 or more late payments of greater than 30 days; or
  - 1 or more late payments of 60 days plus one or more 30-day late payments; or
  - 1 payment greater than 90 days late.

Manual Downgrade

A manual downgrade becomes necessary if additional information, not considered in the AUS/ TOTAL decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an “accept” or “approve”. Loan processors and underwriters must be aware of the variables detailed in this User Guide that otherwise require an ”accept” or “approve” mortgage loan application to be evaluated by a DE underwriter to render a credit decision. Manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, and for other reasons including the unlikely failure of the TOTAL and/or AUS to recognize a derogatory credit reference. Unless specifically permitted to continue to use the “accept” or “approve” documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, the lender must document the mortgage loan application as a “refer” risk classification. The lender is accountable for the credit and ratio warranties on these loans. If the AUS the lender is using does not provide for a system override for any of the conditions shown below, then the lender is required to downgrade the loan to a “refer” and forward the mortgage application to a DE underwriter for risk evaluation.

FEDERAL ELIGIBILITY

If a borrower is discovered to be ineligible due to any of the conditions described below, the lender must downgrade the mortgage loan applications to a “refer” and determine what actions. if any. may be taken to allow the borrower to qualify for the mortgage. If it is discovered that the information provided to determine the borrower to be ineligible was erroneous, the lender may document the file accordingly and proceed as if the mortgage loan application is rated as an “accept” or “approve”.

Delinquent Federal Debt

If the borrower, as revealed by public records, credit information, or HUD's Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any federal debt, the borrower generally is not eligible for a mortgage insured by FHA. See Chapter 2 of HUD Handbook 4155.1 for details.

Credit Alert Interactive Voice Response System (CAIVRS)

If CAIVRS indicates a federal delinquency, default, claim payment, or lien, the borrower generally is not eligible for additional federally related credit. Exceptions and error resolution are discussed in Chapter 2 of HUD Handbook 4155.1. A check of CAIVRS is not required for streamline refinances.

We do not require a "clear" CAIVRS access number as a condition for mortgage endorsement, but the lender must document and justify its approval based on the exceptions described in the HUD Handbook 4155.1 or provide documentation proving erroneous or outdated information residing in CAIVRS.

Suspended and Debarred Individuals

A borrower suspended, debarred, or otherwise excluded from participation in the Agency's programs is not eligible for a FHA-insured mortgage. Both the General Services Administration (GSA) "List of Parties Excluded from Federal Procurement and Non-Procurement Programs" and HUD's Limited Denial of Participation (LDP) list are available through the FHA Connection.

CREDIT ISSUES

Previous mortgage foreclosure

A borrower who suffered a foreclosure or has given a deed-in-lieu of foreclosure within the previous 3 years is generally not eligible for an insured mortgage. The lender should downgrade the mortgage loan application to a "refer", continue processing, and manually underwrite the loan application. Refer to HUD Handbook 4155.1 for exceptions and additional underwriting requirements for borrowers with a prior foreclosure.

If the foreclosure was completed at least 3 years prior *and* the risk classification from TOTAL is an "accept" or "approve", no further documentation regarding the foreclosure is required.

Bankruptcy

Both Chapter 7 and Chapter 13 bankruptcies discharged less than 2 years from the date of the loan application require the mortgage application to be downgraded to a "refer" and provided to a DE underwriter to ensure compliance with the instructions regarding bankruptcies described in HUD Handbook 4155.1. A borrower whose bankruptcy has been discharged less than 1 year generally is not eligible for FHA mortgage insurance.

If the bankruptcy was discharged at least 2 years prior *and* the risk-classification from TOTAL is an “accept” or “approve”, no further documentation regarding the bankruptcy is required.

Late Mortgage Payments

If any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:

- 3 or more late payments of greater than 30 days; or
- 1 or more late payments of 60 days plus one or more 30-day late payments; or
- 1 payment greater than 90 days late,

the loan application must be referred to a DE underwriter for review.

Disputed Accounts/Collections and Public Records

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review unless any of the following circumstances apply:

- The disputed account has a zero balance
- The disputed account is marked as “paid in full” or “resolved”
- The disputed account is ***both***
  -less than $500, ***and***
  -more than 24 months old

OCCUPANCY

Non-Occupant Coborrowers

It is permissible to add a non-occupant coborrower or cosigner to a purchase or a refinance transaction. However, if the occupant borrower has not established a credit score (insufficient or non-traditional credit history), the credit score of the non-occupant coborrower/cosigner may not be used to satisfy FHA requirements. In such cases, the loan application is not to be evaluated by TOTAL. These transactions are to be referred to a DE underwriter for manual underwriting consideration.

If the application is submitted to TOTAL, the transaction needs to be downgraded to a “refer” and forwarded to a DE underwriter for manual underwriting consideration.

Non-Occupant Coborrowers must also be evaluated according to the requirement in HUD Handbook 4155.1.

Non-Traditional and Insufficient Credit Histories

Borrowers with non-traditional credit and/or insufficient credit histories must be evaluated according to the requirement in HUD Handbook 4155.1.

DOCUMENTATION REQUIREMENTS

All standard FHA documentation requirements are applicable with the exception of those described within this section of the User Guide. The lender must also document any situation not addressed in this User Guide in accordance with the applicable HUD Handbooks, Mortgagee Letters, and policies.

"Faxed" Documents

If income/employment, asset, or other documents including disclosures are "faxed" to and from the lender, the documents must clearly identify the employer, depository/investment firm's name, etc., and source of the information. The lender is accountable for ascertaining the authenticity of the document by examining, among other things, the information included at the top or banner portion of the fax received. The document itself must also include a name and telephone number of the individual that can verify the accuracy of the information provided.

Internet Downloads

Income/employment or asset documents downloaded from an Internet website must be placed in the case binder in paper form. The documents must clearly identify the employer or depository/investment firm's name and source of information. The lender is accountable for ascertaining the authenticity of the document by examining the information included on any headers, footers, and the banner portion of the printouts of the downloaded web page(s). The printed web page(s) must also show its Uniform Resource Locator (URL) address and the date and time printed.

Employment / Income

Specific underwriting requirements for what constitutes acceptable types, sources of income, and stability of income requirements are described in Chapter 2 of HUD Handbook 4155.1. The lender is responsible for documenting, verifying the accuracy of the amount of income being reported, and for determining if it can be considered as effective income for determining qualifying ratios. If the borrower's income changes during loan processing, refer to "Tolerance Levels for Resubmission Requirements" in Chapter 1 of this User Guide.

If the borrower's employment changes during loan processing, the lender must resubmit current, corrected information through the AUS to determine if the mortgage credit risk classification determined by TOTAL changes.

- **Current Employment**

The lender must obtain the single most recent pay stub showing year-to-date earnings of at least one month **and any one of the following**:

  - Written Verification of Employment (VOE)
  - Verbal Verification of Employment
    Note: Lender or service provider must document the individual who verifies the employment of the borrower.
  - Electronic verification acceptable to FHA

- **Employment History**

The lender is required to verify the applicant's employment history for the previous 2 years. However, direct verification is **not required if *all*** of the following conditions are met:

  - the current employer confirms a 2 year employment history, or a paystub reflects a hiring date;
  - only base pay is used to qualify (no overtime or bonuses), and
  - the borrower executes form IRS 4506 or 8821 for the previous 2 tax years.

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

  - W-2(s)
  - VOE(s)
  - Electronic verification acceptable to FHA

- **Borrowers Employed by Family Members**

Additional documentation may be required for borrowers who work for family-owned businesses. Refer to HUD Handbook 4155.1 for requirements.

- **Commissioned Individuals**

A commissioned applicant is defined as one who receives more than 25 percent of his or her annual income from commissions. For these individuals, the lender must obtain, and analyze signed federal income tax returns, including all schedules, for the most recent 2 years and subtract unreimbursed business expenses in underwriting.

  - If the borrower's income tax return information is not obtained directly from the Internal Revenue Service (IRS), the borrower must execute form IRS 4506 or 8821.

Note: As a risk base measure, lenders must routinely verify income being reported for the mortgage loan application directly through the IRS. Any discrepancies between the transcripts and the borrower provided tax returns must be resolved prior to loan approval.

- **Self-Employed Borrowers**

FHA considers a borrower owning 25 percent or more of a business as being self-employed. The minimum length of self-employment that a borrower must demonstrate, to have that income considered stable and effective for qualifying, is discussed in HUD Handbook 4155.1.

  - If the borrower's income information is not obtained directly from the Internal Revenue Service (IRS), the borrower must execute form IRS 4506 or 8821.

Note: As a risk based measure, lenders must routinely verify income being reported for the mortgage loan application directly through the IRS. Any discrepancies between the transcripts and the borrower provided tax returns must be resolved prior to loan approval.

  - **Business Tax Returns**

    The lender must obtain signed:
    - federal business tax returns, with all applicable schedules, if the business is a corporation, an "S" corporation, or a partnership, and
    - obtain business income information directly from the IRS for the most recent 2 years for each business.

    However, for "accept" or "approve," business tax returns are not required if ***all*** of the following are met:
    - individual federal income tax returns show increasing self-employed income over the past 2 years,
    - funds to close are not coming from business accounts, and
    - the FHA insured mortgage is not a cash-out refinance.

Note: As a risk base measure, lenders must routinely verify income being reported for the mortgage loan application directly through the IRS. Any discrepancies between the transcripts and the borrower provided tax returns must be resolved prior to loan approval.

  - **Profit and Loss (P&L) Statements and Balance Sheets**

    These documents are not required on mortgages rated "accept" or "approve" by TOTAL *if* the income used in qualifying was based on the previous 2 years' tax returns. However, if income used to qualify the borrower exceeds that of the 2 year average based on tax returns, then either an audited P&L statement or signed and filed quarterly tax returns are to be used to support the higher income stream.

- **"Deminimus" Self-employed**

If a borrower receives less than 5 percent of their monthly income as a result of being self-employed, and the loan application receives an "accept" or "approve", there is no need to obtain individual or business tax returns or obtain balance sheets or P&L statements. However, the lender must verify the existence of the business through telephone listings, business cards, etc. and document the casefile accordingly.

- **Other Income Information**

    - **Employment Gaps**
      Obtain an explanation for employment gaps within the last 2 years if the gap was greater than **6 months.**

    - **Alimony and/or Child Support**
      Obtain evidence of receipt using deposits on bank statements or canceled checks for the most recent 3 months that support the amount used in qualifying. Provide evidence that the claimed income will continue for at least 3 years. Use the front and pertinent pages of the divorce decree/settlement agreement showing financial details.

Asset Information

It is required that the casebinder contains the required documentation to evidence the cash investment, assets to close, and cash reserves, if any, using the following:

- **Depository Accounts**

  If a Verification of Deposit (VOD) is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, then obtain statement(s) for the most recent 2 months to verify sufficient funds to close.

  Note: 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.

- **Gift Funds**

  The borrower must list the name, address, telephone number, relationship to the homebuyer, and the dollar amount of the gift on the loan application or in a gift letter for each cash gift received. If sufficient funds required for closing are not already verified in the borrower's accounts, document the transfer of the gift funds to the homebuyer in accordance with instructions described in HUD Handbook 4155.1.

  Note: No form of secondary financing, with or without required payments, is to be shown as "gifts" in any AUS for mortgage risk evaluation.

- **Stock and/or Bond Accounts**

  Obtain brokerage statement(s) for each account for the most recent 2 months. Evidence of liquidation is *not* required.

- **Retirement Accounts**

  Obtain the most recent statements for each account to verify sufficient funds to close. Document the terms and conditions for withdrawal and/or borrowing and that the borrower is eligible for these withdrawals. Use only 60 percent of the amount in the account unless the borrower presents documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal. Evidence of liquidation is *not* required.

- **Sale of Home/Real Estate**

Obtain a HUD-1 or the equivalent closing statement to evidence the sale of the property. If the borrower is being transferred by his or her company under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

- **Sale of Assets**

If an asset other than real estate or exchange-traded securities is sold to accumulate funds to close the mortgage, obtain a bill of sale and evidence of the proceeds, or document the existence, value, and buyer's intention to purchase. Evidence of liquidation is *not* required.

- **Earnest Money**

  Obtain an explanation and documentation for any earnest money deposits in excess of 2 percent of the property's sales price. The lender must verify that any recent debts were not incurred to obtain part of the required cash investment on the property being purchased.

- **Large Deposits**

  Obtain an explanation and documentation for any recent large deposits in excess of 2 percent of the property's sales price. The lender must verify that any recent debts were not incurred to obtain part or all of the required cash investment on the property being purchased.

- **Cash Reserve Requirements**

  1-or 2-Unit Properties
  Verify all cash reserves that are submitted to the AUS. Cash reserves after closing are not required but are evaluated in determining the risk classification of the loan.

  3- or 4-Unit Properties
  Regardless if the transaction is a purchase or a refinance, **3 months** reserves in liquid funds are required after closing.

- **Sources of Cash Reserves**

  Cash reserves may include:

  — Certain Retirement Accounts
  To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be if the retirement account allows for withdrawals for conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.

  — Gift Funds
  Surplus gift funds that remain in the borrower's account following loan closing, subject to proper documentation, may be considered as cash reserves.

  Note: Funds received from the subject transaction cannot be counted to meet the reserve requirements. (i.e. Cash received from a refinance transaction)

<u>Credit Report Processing and Reconciliation Information</u>

The lender is responsible for reviewing all credit reports for all borrowers. The feedback certificate must identify the borrower's credit report that was used for TOTAL's risk evaluation.

- **Derogatory or Delinquent Credit not considered by TOTAL Mortgage Scorecard**

In the event that derogatory or delinquent credit items are revealed during processing that are not reflected on the credit report and in turn were ***not*** considered by TOTAL's risk evaluation, it is required that the lender downgrade the mortgage loan application to a "*refer*" and manually underwrite the loan. Examples of derogatory credit items that could conceivably not appear on the credit report that would result in a downgrade include, but are not limited to:

  - Bankruptcy, foreclosure, collection account, charge-off, tax lien, or judgment;
  - Any mortgage trade line including mortgage line-of-credit payments, during

the most recent 12 months, consisting of:
- 3 or more late payments of greater than 30 days, or
- 1 or more late payments of 60 days plus 1 or more 30-day late payments, or
- 1 payment greater than 90 days late.

- **Significant Inaccuracy/Undisclosed Debt**

When a debt or obligation (other than a mortgage) is revealed during the application process that was not listed on the loan application and/or credit report and was *not* considered by the AUS, the lender must:
- verify the actual monthly payment amount;
- include the monthly payment amount and re-submit the loan if the liability is greater than $100 per month; and
- determine that any funds borrowed were not/will not be used for the homebuyer's cash investment requirement.

Note: Direct verification of the debt is not required.

- **Contingent Liability on Mortgage Debt**

If the credit report indicates a mortgage debt that has been assumed by an unrelated party, with or without a release of liability, or the title has been transferred because of divorce, lenders need not include the debt in the qualifying ratios. Obtain either:
- a copy of the divorce decree ordering the other spouse to make payments; or
- a copy of the assumption agreement and the deed showing transfer of title out of the borrower's name.

Note: A 12-month payment history is not required.

- **Mortgage Reference**

If a mortgage debt does not appear on the credit report or a 12-month history, or if no rating is available, obtain the most recent 12-month history and include the payment in the qualifying ratios.

Note: Refer to Derogatory or Delinquent Credit not considered by TOTAL within this User Guide.

- **Rental Reference**

A separate rental reference is not required.

- **Credit Report Inquiries**

Include any new debt payments resulting from material inquiries listed on the credit report in the debt ratios. Also, determine that any recent debts were not incurred to obtain any part of the required cash investment on the property being purchased.

- **Derogatory Credit Information and Judgments**

Obtain evidence of payoff for any outstanding judgments shown on the credit report. No other explanation is required for adverse credit or other derogatory information.

- **Collection Accounts**

The presence of collection accounts in the borrower’s credit history already results in lowering the credit bureau scores used in the mortgage risk evaluation. No further information is needed from the borrower.

- **Consumer Credit Counseling Service (CCCS)**

The borrower’s credit history, not voluntary participation in CCCS, is the important variable in the mortgage risk evaluation. No further information is needed from the borrower.

CHAPTER 3
ENDORSEMENT PROCEDURES

A loan is eligible for FHA insurance endorsement if:

- The TOTAL Mortgage Scorecard rated the mortgage loan application as an “accept” or “approve;”or a “refer” was issued and the DE Underwriter manually underwrote and approved the mortgage application; and
- The data entered into the AUS is true, complete, and accurate; and
- The entire loan package meets all other FHA requirements except for those specifically not required because the loan application was evaluated by TOTAL and an “accept” or “approve” was issued.

Loan-level data in the AUS used to render a risk assessment by TOTAL must match that data also entered into CHUMS. If data entered by the lender into CHUMS indicates a degradation of loan quality when compared with the AUS data used to obtain the risk assessment, FHA reserves the right to return the case binder to the lender unendorsed until the lender corrects its data. FHA may also score the mortgage using TOTAL’s emulator. If the results of this re-scoring indicate that an “accept” or “approve” has been downgraded to a “refer” risk classification, the case binder may be returned to the lender unendorsed for traditional manual underwriting.

While TOTAL is available for lenders to “pre-qualify” loan applicants, unless that mortgage is scored at least once with a case number FHA does not recognize the risk assessment nor can information be carried from TOTAL to FHA Connection for endorsement processing. It is imperative that the lenders make certain that they enter the FHA case number into their LOS or AUS as soon as it is known. This will ensure a more efficient endorsement process. Mortgage loans that FHA’s system of records cannot identify as having been risk-assessed by TOTAL will not receive the benefits of the documentation reduction and credit policy revisions and may be returned to the lender for manual underwriting.

Scorecard Version Issues

From time to time, FHA will release new versions of TOTAL. FHA will announce the date that the new version of the scorecard will be available and from that date forward all new, first-time risk assessments will be based on the new scorecard. Typically, loan applications that were scored under the previous version of the scorecard will be “grandfathered” and eligible for re-scoring under the earlier version for 90 days. Once that period has lapsed, all re-scores will be subject to the new version of the TOTAL. Lenders and vendors are also advised that the version number must be passed back to TOTAL to allow this grandfathering feature to operate.

Underwriter Responsibilities for mortgages receiving an *“Accept” or “Approve”*

The DE underwriter <u>is not</u> required to:

- o personally review the credit and/or qualifying ratios; or
- o to certify that the borrower’s credit and capacity meets standard FHA requirements.

The DE underwriter is required to underwrite the appraisal according to standard FHA requirements.

Note: The Approved AUS CHUM Identifier is to be recorded on the Loan Transmittal and Underwriting Summary (HUD-92900-LT) and DE Approval (HUD-92900-A, page 3).