FHA Program

Conforming and High Balance Loans

Fixed Rate and ARM

Primary Residence **Full Documentation**					
Transaction Type	***Units*** [5]	***LTV***	***CLTV***	***Loan Amount*** [1]	***Credit Score*** [2,3,4]
Purchase	1	90%	90%	FHA Limit	580
Purchase	1-4	96.50%	105% [6]	FHA Limit	620
Limited Cash-Out	1	90%	90%	FHA Limit	580
Limited Cash-Out	1-4	97.75%	97.75%	FHA Limit	620
Cash-Out	1	85%	85%	FHA Limit	580
Cash-Out	1-4	85%	85%	FHA Limit	620

Footnotes:

1. Eligible conforming and high balance loan amounts by county and units can be found at: FHA Mortgage Limits
2. 2-4 units high balance minimum 640 credit score, 620-659 fico overlays and State Restrictions for multi units apply.
3. Borrowers with a credit score of 620-639 and the subject property is in a specified state or subject to additional requirements. Refer to the Credit Score 620-639 topic for to view applicable states and additional requirements.
4. Borrowers with a credit score of 580-619 are subject to specific guidelines restrictions. Refer to the Credit Score 580-619 topic to view requirements.
5. Illinois 2-4 units, New Jersey and New York 3-4 units refer to the State Restrictions topic for requirements.
6. 105% CLTV allowed with funds from a DPA that is a government entity (Federal/state/local) only.

Refer to REMN's FHA Streamline Refinance matrix for Streamline guidelines

Complete HUD guidelines can be found at HUD 4155.1

EQUAL HOUSING OPPORTUNITY

Mortgage Insurance Premium Factors				
Case Numbers Assigned Prior to April 9, 2012				
Loan Amount	**Loan Term**	**LTV**	**Annual MIP**	**Up-front MIP**
All	> 15 years	> 95%	1.15%	1.00%
	> 15 years	≤ 95%	1.10%	
	≤ 15 years	≥ 90.01%	0.50%	
	≤ 15 years	78.01% - 90%	0.25%	
	≤ 15 years	≤ 78%	N/A	
Case Numbers Assigned April 9, 2012 through June 10, 2012				
Loan Amount	**Loan Term**	**LTV**	**Annual MIP**	**Up-front MIP**
All	> 15 years	> 95%	1.25%	1.75%
	> 15 years	≤ 95%	1.20%	
	≤ 15 years	≥ 90.01%	0.60%	
	≤ 15 years	78.01% - 90%	0.35%	
	≤ 15 years	≤ 78%	N/A	
Case Numbers Assigned on or after June 11, 2012				
Loan Amount	**Loan Term**	**LTV**	**Annual MIP**	**Up-front MIP**
≤ $625,500	> 15 years	> 95%	1.25%	1.75%
> $625,500	> 15years	> 95%	1.50%	
≤ $625,500	> 15 years	≤ 95%	1.20%	
> $625,500	> 15 years	≤ 95%	1.45%	
≤ $625,500	≤ 15 years	≥ 90.01%	0.60%	
> $625,500	≤ 15 years	≥ 90.01%	0.85%	
≤ $625,500	≤ 15 years	78.01% - 90%	0.35%	
> $625,500	≤ 15 years	78.01% - 90%	0.60%	
≤ $625,500	≤ 15 years	≤78%	N/A	
> $625,500	≤ 15 years	≤78%	N/A	
Case Numbers Assigned on or after April 1, 2013 through June 2, 2013				
Loan Amount	**Loan Term**	**LTV**	**Annual MIP**	**Up-front MIP**
≤ $625,500	> 15 years	≤ 95%	1.30%	1.75%
≤ $625,500	> 15 years	> 95%	1.35%	
> $625,500	> 15 years	≤ 95%	1.50%	
> $625,500	> 15 years	> 95%	1.55%	
≤ $625,500	≤ 15 years	78.01% - 90%	0.45%	
≤ $625,500	≤ 15 years	> 90%	0.70%	
> $625,500	≤ 15 years	78.01% - 90%	0.70%	
> $625,500	≤ 15 years	> 90%	0.95%	
All	≤ 15 years	≤ 78%	N/A	

Continued on the following page for case numbers assigned on or after June 3, 2013.

Mortgage Insurance Premium Factors (cont.)					
Case Numbers Assigned on or after June 3, 2013					
Loan Amount	**Loan Term**	**LTV**	**Annual MIP**	**Up-front MIP**	**Annual MIP Assessment Period**
≤ $625,500	> 15 years	≤ 95%	1.30%	1.75%	≤ 90% LTV: 11 years > 90% LTV: Life of loan
≤ $625,500	> 15 years	> 95%	1.35%		Life of loan
> $625,500	> 15 years	≤ 95%	1.50%		≤ 90% LTV: 11 years > 90% LTV: Life of loan
> $625,500	> 15 years	> 95%	1.55%		Life of loan
≤ $625,500	≤ 15 years	78.01% - 90%	0.45%		11 years
≤ $625,500	≤ 15 years	> 90%	0.70%		Life of loan
> $625,500	≤ 15 years	78.01% - 90%	0.70%		11 years
> $625,500	≤ 15 years	> 90%	0.95%		Life of loan
All	≤ 15 years	≤ 78%	0.45%		11 years

<table>
<tr><th>Topic</th><th>Guideline</th></tr>
<tr><td>4506-T</td><td>Signed 4506-T required prior to loan closing for both personal and business tax returns (if applicable)
Tax transcripts for personal tax returns are processed per DU
4506-T results must be validated against the income documentation
Broker provided processed 4506-T results are not eligible.</td></tr>
<tr><td>Age of Documents</td><td>All credit, income and asset documentation must be ≤ 120 days from the Note date. Appraisal is valid for 120 days from the effective date.</td></tr>
<tr><td>Appraisals</td><td>Appraisals must be provided by a licensed FHA approved appraiser.
Appraisal photos must be taken of the front and rear of the property, at opposite angles, to show all sides of the subject property.
Additional photos are required for any improvements with contributory value that are not captured in the front and rear photos.
The street scene photo must include a portion of the subject property.
- If the subject property is proposed construction and the improvements have not been started, the photos must include the grade of the vacant lot.
Modular/prefabricated homes: The appraiser must address the marketability of the property.
The source of the closed comparable sales used in the appraisal must be from one of the following or a desk review will be required:
- A Multiple Listing Service (MLS), or
- MRIS (www.mris.com), or
- Midwest Real Estate Dated (MRED) (www.mredllc.com), or
- North Texas Real Estate Information Systems, Inc. NTREIS) at (www.ntreis.net), or
- San Antonio Board of Realtors (www.sabor.com), or
- GeoData at www.geodataplus.com , or
- Comps Inc. at www.compsny.com .
NOTE: Comparables from a public independent source are only eligible in the states of Vermont and Maine.
The comparable photos must include the front view of each comparable sale used. Use of MLS photos to exhibit comparable condition at the time of sale are acceptable, however, the appraiser must include their own photos to document compliance with the Score of Work which requires the appraiser to inspect each comparable sale from the street.
Appraisal must identify and address properties located within a declining market. When the property is located in a declining market, the appraiser is required to:
- Provide, at minimum, two comparable sales that closed within 90 days of the subject property appraisal. The comparables must be as similar to the subject property as possible.
- The appraisal must include, at minimum, two active listings or pending sales.
Comparable sales used for new construction properties are subject to the following:
- If all three of the comparable sales used to support the value of the subject property were obtained from one of the above sources no further action is required.
- If the comparable sales are not all obtained from one a MLS, MRIS, MRED, NTREIS, or from an independent source (Vermont and Maine only),the appraiser must comment that the subject property development is being marketed in an “open” or “public” environment (i.e. newspaper advertisements, bill board signs, website, etc.).
  - Additionally, the following applies:
    - One of the comparable sales must be outside the project the subject property is located in and be from a MLS, MRIS, MRED, NTREIS, or public source (public source Vermont/Maine only).
    - Two of the comparable sales must be from sources other than the subject property builder.
    NOTE: The appraiser is always allowed to provide more than three comparable sales in order to support the property value.</td></tr>
</table>

Appraisals (cont.)	

Appraisals (cont.)

- Comparable sales for REO properties are subject to the following:
  - HUD prefers that REO sales and pre-foreclosure sales are **no**t used as comparable sales to establish the value for the REO property being appraised. If REO sales and pre-foreclosure sales are used, the appraiser must address their use in the appraisal report and identify the effect they have on the market and specifically the subject property.
  - Properties where the transfer to a mortgagee or entity owning the mortgage loan by deed of trust through foreclosure sale or sheriff's sale may **never** be used as a comparable sale (e.g. a property that was foreclosed on by a bank or the property was seized for payment of delinquent debt, such as property taxes and the bank or sheriff's department still has ownership of the property).
- At minimum, REMN requires the following on all properties:
  - A conventional heat source with the ability to maintain a temperature of 50° in areas of the property where there is plumbing
  - Any broken glass that is a health hazard must be removed and the opening closed.
- Properties that do not meet FHA's "minimum property standards" requirement may be eligible for an Escrow holdback. Holdback/repair escrows are subject to REMN Wholesale approval. If approved, the appraiser must confirm the work completed will bring the property up to average condition. Refer to the Escrow Holdbacks topic for more details
- Appraisals are valid 120 days from the effective date. A 30 day extension is allowed provided there is a signed sales contract or the borrower has loan approval prior to the original appraisal expiration date. Loans with an appraisal extension must close within 150 days from the effective date of the appraisal report or a new appraisal and a new case number will be required.
- Properties located in a Disaster Declaration area will be subject to additional appraisal review.
- HUD REO properties: HUD requires a new full appraisal if any of the following conditions exist:

Condition	Maximum FHA Loan Amount*
1. DE u/w determines there are material deficiencies with the current appraisal 2. The borrower is applying for a 203(k) loan and an "as-repaired" appraisal is required. ** 3. The sales contract was not approved within 120 days of the HUD REO appraisal's effective date 4. The HUD ordered appraisal is no longer valid (i.e. older than 120 days and not eligible for 30 day extension)	Based on the value of the property as determined by the new appraisal
5. The sales contract price is > the value of the HUD ordered appraisal and/or the "as-is" appraised value is not available.	Limited to the lesser of: • The sales contract price, **or** • The new appraised value, **or** • The initial list price of the property NOTE: The initial list price is available on the MLS and/or through the property listing agent.

*Subject to underwriting requirements for down payment, financing of closing costs, etc.

If a new appraisal is required based on the conditions above, the following applies:

- The original HUD ordered appraisal may **not** be used to underwrite the loan;
- HUD will **not** pay for the cost of the new appraisal. The borrower **may be charged** for the new appraisal as part of the borrower's closing costs;
- A written justification for the new appraisal is required (documentation that one of the above conditions existed);
- Copies of all appraisals of the property must be retained in the loan file.

Appraisal Management Companies (AMC)	The following is a list of REMN Wholesale approved AMCs: • ACT Appraisal Management • AMC Settlement Services • Axis Management Solutions • Mortgage Management Consulting (MMC) • Nationwide Property & Appraisal Services • Valuation Management Group Click here to go the REMN Wholesale Order an Appraisal page on the REMN Wholesale website
Assets	• Loans with an "Approve/Eligible" Finding require at minimum, one month's bank statements (all pages) NOTE: A fully completed VOD is only allowed as a supplement to verify the current balance on asset accounts that only provide annual or semi-annual statements • Manually underwritten loans require 2 months bank statements. - **Purchase transactions: credit score of 580-619:** Two (2) months bank statements required to document 10% borrower own funds down payment requirement. Bank statements must be dated for the two months prior to the loan application date. All other asset documentation requirements must also be met. • Verification and documentation of the deposit amount and source of funds is required, if the earnest money: - Exceeds 2% of the sales price, or - Appears to be excessive based on the borrower's history of accumulated savings. - Satisfactory documentation includes: - Copy of the cancelled check and a copy of the bank statement showing the withdrawal - Certification from the deposit holder acknowledging receipt of the funds - Bank statements (all pages) for the most recent 2 months. • Cash on hand and unsecured funds are ineligible sources for assets. • Verification and documentation for any recent large deposit(s), a deposit that exceeds 2% of the property's sales price on purchase transactions and 2% of the appraised value on refinance transactions (if assets required to close), is required.
Assumptions	Not allowed

AUS	REMN accepts the following AUS Findings on FHA loans:
	• An "Approve/Eligible Finding, **or**
	• A "Refer/Eligible Finding. "Refer/Eligible" will require a manual underwrite which is on an exception basis only. The loan cannot have layered risk and must have compensating factors.
	• A loan that receives an "Approve/Eligible" Finding but has additional information not considered in DU decision that affects the overall insurability or eligibility of the loan requires a downgrade to manual underwriting. The loan will be eligible for manual underwriting upon review by the underwriter and REMN management approval. Loans that are downgraded cannot have layered risk and must have compensating factors.
	Examples requiring a manual downgrade are:
	- Delinquent federal debt
	- CAIVRS alert
	- Suspended and debarred individuals
	- Previous foreclosure within the past 3 years
	- Bankruptcy (7 or 13) with the past 2 years
	NOTE: A mortgage payment is considered delinquent if it is not paid in the month due
	- If any mortgage loan, including HELOC payments, in the previous 12 months reflects
	  - Three or more payments > 30 days late
	  - One or more payments > 60 days late plus one or more 30 day late payments, or
	  - One payment > 90 days late
	- A short sale or short pay-off within the previous 12 months
	- Disputed/collection accounts and public records **except** as follows:
	  - A manual downgrade is not required on a disputed account if:
	    - The account has a zero balance, **or**
	    - Any late payments on the account are aged 24 months or more, **or**
	    - The account is current and paid as agreed.
	- Non-traditional and insufficient credit histories
	Refer to the Derogatory Credit topic for detailed derogatory credit guidelines.
	• Non-occupant co-borrower or co-signer are added to a purchase or rate/term transaction and the occupant borrower does not have a credit score due to insufficient or non-traditional credit history. The credit score of the non-occupant co-borrower or co-signer cannot be used to satisfy FHA requirements so manual underwriting is required.
	• Compensating factors **are required** on all loans downgraded to a manual underwrite. Refer to the Compensating Factors topic for a detailed description of compensating factors for acceptable compensating factors (DTI ≤ 31%/43%)
	• Refer to the Manual Underwrites topic for a detailed description of compensating factors if the DTI exceeds 31%/43%

Available Markets	• All 50 states with the exception of Massachusetts and Nevada • Guam, Puerto Rico and the Virgin Islands are also ineligible.

Back to Work – Extenuating Circumstances	Mortgagee letter 13-26, effective with case numbers issued on and after August 15, 2013 through September 30, 2016 allows for a lesser waiting period for foreclosures, pre-foreclosures, deed-in-lieu, short sales and/or bankruptcy from up to three (3) years to twelve (12) months if borrower meets all parameters No exceptions to the guidelines below will be granted. Eligible as follows: • Case number assigned on or after August 15, 2013. • Minimum 640 credit score (REMN requirement). Borrowers with a credit score of 620-639 are **ineligible** for Back to Work. • Requires a downgrade to a manual underwrite and the manual underwriting pricing adjustor applies. • Maximum DTI subject to manual underwriting restriction of 31% / 43%. DTI may be exceeded on an exception basis with strong compensating factors. • Purchase transactions only • Borrower experienced an "economic event" (i.e. job loss, loss of income or combination of both) that was beyond their control which caused the borrower to experience a foreclosure/pre-foreclosure, deed-in-lieu, short sale, and/or bankruptcy. • The foreclosure/pre-foreclosure, deed-in-lieu, or short sale must have occurred on the borrower's primary residence and was the result of the economic event. • The "economic event" resulted in a decline in household income of at least 20% and lasted for 6 months or more. NOTE: Household income is defined as any borrower who was on the prior Note and living in the property as their primary residence. It does not include non-occupant co-borrower income, or non-purchasing spouse income. • Borrower had satisfactory credit prior to the "economic event" and has re-established satisfactory credit for a minimum of 12 months as follows: - Borrowers with traditional credit: - 0x30 in previous 12 months on housing payment and any open mortgage has twelve (12) months satisfactory payment history (i.e. loan that was brought current through a loan modification) - 0x30 in previous 12 months on installment accounts - No major derogatory credit on revolving accounts. - Borrowers with non-traditional credit history are subject to: - 0x30 in previous 12 months on rental housing payments, and - No more than 1x30 on any payments due to other creditors, and - No collection accounts/court records reporting (excluding medical and/or identity theft).

Back to Work – Extenuating Circumstances (cont.)	• **All** borrowers on the new loan have **completed** housing counseling from a HUD-approved agency a minimum of 30 days prior, but no more than 6 months, prior to the loan application date. Housing counseling requirements;
	- Minimum one hour of one-on-one counseling addressing cause of event and actions take to overcome and decrease the likelihood of event happening again. Counseling may be in person, telephone, internet or any method approved by HUD.
	- Fees must be reasonable, affordable and customary/commensurate with the services provided.
	- Borrower to provide letter from the participating housing counseling agency, on agency letterhead, that includes all of the following:
	  - Agency's tax identification number (TIN)
	  - Borrower's name and signature
	  - Counselor's name
	  - Date counseling was completed
	  - Signature of the authorized official of the counseling agency providing the counseling
	  - Statement that the borrower received all of the required disclosures which include:
	    - A detailed description of any financial relationship between the counseling agency and any lender,
	    - A statement advising the borrower that they are not obligated to pursue a loan with any lender,
	    - The following statement: "Completion of this housing counseling program and receipt of a letter of completion do not qualify you for an FHA loan. A lender will have to determine if you qualify for a loan. You understand that you may not be approved for a loan."
	    - Information regarding alternative services, programs and products that are available to the borrower.
	To search for a HUD approved counseling agency click here: Counseling Agency
	• The "economic event" must be documented as follows:
	- **Employment Loss:** A written Verification of Employment documenting the borrower's termination date. If the employer is no longer in business the following is acceptable:
	  - Written termination notice, or
	  - Publicly available information documenting business closure, and
	  - Documentation demonstrating receipt of unemployment income.
	  NOTE: If the borrower did not collect unemployment income and the company is no longer in business the borrower is **not** eligible for this program
	- **Income Loss:** Any of the following can be used to document a wage earner or self-employed borrower's income prior to the loss event:
	  - A written verification of employment (VOE) documenting the borrower's income prior to the economic even, or
	  - Signed tax returns, or
	  - W-2s
	  Additional documentation required for the following:
	  - Seasonal income must be verified and documentation of a 2 year history of seasonal employment in the same field just prior to the loss of income is required.
	  - Part-time income must be verified and documentation of a 2 year history of part-time employment just prior to the loss of income is required.
	  - Overtime, bonus and commission income must be verified and documentation of a 2 year history just prior to the loss of income is required.
	Reminder: Income must be documented for **all** household members who were on the prior Note and occupied the property as their primary residence, even if they are **not** going to be on the new loan, to establish Back to Work program eligibility.

Back to Work – Extenuating Circumstances (cont.)	- **Foreclosure/Deed-in-Lieu**: A minimum of 12 months has elapsed since the **completion** of the foreclosure/deed-in-lieu. If the foreclosure is not complete, the borrower is ineligible. - **Short Sale**: A minimum of 12 months has elapsed since the date of the sale. - **Chapter 7 Bankruptcy**: A minimum of 12 months has elapsed since the discharge date. - **Chapter 13 Bankruptcy - Discharged**: Discharged prior to the loan application and all required bankruptcy payments were made on time. - **Chapter 13 Bankruptcy – Not Discharged:** A minimum of 12 months of the pay-out period has elapsed under the bankruptcy and all payments were made on time. If the bankruptcy was not discharged prior to the loan application, written approval from the bankruptcy court is required. - **Collections/Judgments:** Verify and document that all collections and/or judgments were the result of the economic event. If the borrower currently has open collection accounts or judgments they are subject to HUD guidelines. Collections/judgments are **not** allowed for borrowers with non-traditional credit. • If CAIVRS indicates the borrower has had a claim in the previous 3 years on an FHA loan, a request for waiver or resolution may be requested from HUD. Requests cannot be submitted to HUD until the loan is underwritten and approved. **Loans cannot close until a determination is received from HUD.**
Borrowers - Eligible	• U.S. citizens • Permanent resident aliens: - Permanent resident alien borrowers must hold an unexpired “Green Card” issued by the U.S. Citizenship and Immigration Services (USCIS). A copy of both the front and back of the card is required. • Non-permanent resident aliens are eligible as follows: - Borrower has a valid Social Security number (cannot be used as evidence of eligible work status). - Property must be borrower’s primary residence - Borrower has an unexpired Employment Authorization Document (EAD) issued by the United States Citizenship and Immigration Services (USCIS) as evidence of eligible work status. If the authorization for temporary residency status expires within one year, continuation may be assumed when a prior history of renewals. If no continuation has been previously granted the underwriter must determine the likelihood based on evidence from USCIS. NOTE: Borrowers residing in the United States under refugee or asylee status granted by the USCIS are automatically eligible to work in the U.S. therefore an EAD is not required • All borrowers are required to have a social security number; a TIN is not acceptable.
Borrowers – Ineligible	• Foreign Nationals • Borrowers with diplomatic immunity • Borrowers without a social security number • Non-U.S. citizens with no lawful residency in the U.S.

Borrower Types	• **Borrower and Co-Borrower:** Owns the property and is liable for the debt. Signs all documents, including the application, Note and Mortgage/Deed of Trust and is on title. Income, assets and debt used in qualification. • **Non-Occupant Co-Borrower:** Owns the property and is liable for the debt, but does not live in the property. Signs the application, Note, Mortgage/Deed of Trust and is on title. Income, assets and debt are used in qualification for purchase and rate/term only. Income is not considered on cash-out transactions for qualification. • **Co-Signer:** Has no ownership interest in the property but is liable for the debt. Signs the application and Note, but no the Mortgage/Deed of Trust (no ownership interest). Income assets and debt are used in qualification. • **Co-Mortgagor**: Has ownership interest in the property but is **not** liable for the debt. Signs all collateral documents (Mortgage/Deed of Trust, TIL & Right to Rescind, as applicable). Signature is to subordinate their interest in the property to the lien. Income, assets and debts are not used in qualification. • **Non-Borrowing/Non Purchasing Spouse:** Generally have no ownership interest in the property and are not liable for the debt. In community property/marital rights states the non-borrowing spouse does have an interest in the property and is required to execute the security instrument and all applicable documents as determined by state law.
CAIVRS/LDP/GSA	• **CAIVRS at CAIVRS** - All borrowers must be checked against the Credit Alert Interactive Voice Response System (CAIVRS) to determine if they have delinquent federal debt. Borrowers identified on this site are generally ineligible for FHA financing. • **LDP / GSA LDP / GSA** - All of the following parties to the transaction, as applicable, must be checked against HUD's Limited Denial of Participation list and the General Service Administration's Excluded Parties List System. - Borrower(s), - Broker, - Loan Agent, - Seller, - Real Estate Listing and Selling Agent(s), - Appraiser.
Case Numbers	• Case numbers requests must comply with HUD Mortgagee Letter 2011-10. To view the Mortgagee Letter in its entirety go to: HUD Mortgagee Letters • FHA requires certification that there is an active loan application for the subject borrower and property and the time the case number is requested • The borrower's name and social security number is required for all new construction (proposed construction and existing construction less than 1 year old) • Case numbers older than 6 months must be cancelled and a new case number obtained when there has been no activity during the 6 months the case number was open.

Contingent Liabilities	A contingent liability exists when an individual is responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.
	• **Co-Signed Debt**
	- When the borrower is legally obligated on a debt, the debt must be included in the borrower's DTI ratio, even if another party is making the payment. The payment may only be excluded when the person making the payment is also legally obligated on the debt.
	- Personal debt, where the borrower is a co-signer, may be excluded from the DTI if:
	  - Documentation is provided verifying another borrower is responsible for the debt, and
	  - Copies of the cancelled checks (front and back) are provided from the party paying the debt for the most recent 12 consecutive payments, and
	  - The credit report indicates the account has no late payments.
	NOTE: If required documentation cannot be obtained management approval is required to exclude debt from the monthly DTI calculation
	• **Business Debt**
	- ***Sole Proprietorship or Partnership:*** The business is not an entity that can borrow and any debt used by the business is personal obligations regardless of how the debt is paid.
	  - This type of debt must be included in the borrower's DTI. The debt may be added back to the business income so the debt is not counted twice
	- ***Corporations (Includes Sub-S and most LLCs):*** A corporation is a legal entity that can be obligated for debts. Officers of the corporation or members of an LLC are often required to personally sign as additional guarantors for debts owed by the Corporation or LLC.
	  - Debts may be excluded from the DTI, if:
	    - A minimum of 12 consecutive most recent cancelled checks are provided by the corporation/LLC for payment on the debt, and
	    - Documentation is provided showing the corporation/LLC is a borrower on the loan.

Compensating Factors Manual Underwriting DTI ≤ 31%/43%	Loans downgraded to a manual underwrite require compensating factors. FHA considers compensating factors as: • Housing expense payment decreasing • Down payment over minimum required • Accumulated savings • Previous acceptable credit history indicates the borrower has the ability to devote a higher portion of income to housing • Compensation or income not reflected in effective income • Minimal housing expense increase • Substantial cash reserves • Substantial non-taxable income • Potential for increased earnings • Primary wage earner relocating and income from secondary wage earner, with prior work experience, not included
Credit History	• Tradeline requirements per DU Findings. • Authorized user tradelines require underwriter review to ensure the trade lines are an accurate reflection of the borrower's credit history. • Borrowers with insufficient credit history, compensating factors are not applicable, and they are subject to the following DTI requirements: - DTI computed only on the borrowers who will be occupying the property and obligated on the loan, - DTI cannot exceed 31%/43% - Two months cash reserves from the borrowers own funds are required. Cash gifts are not eligible to satisfy reserve requirements.

Credit - Installment/Revolving Accounts	All debts are run through DU to ensure accurate DU Findings.
	• **Installment Debt**
	- Included in the DTI if > 10 months remaining, or
	- Included if ≤ 10 months remaining **AND** payment is > $100.00 and/or at underwriters discretion
	- Pay down of installment debt to < 10 months may be considered on an exception basis if the borrower has strong reserves, high credit score, no gifts or grants, and the debt ratio, with the debt(s) included is 43% or less. REMN management approval is required.
	Revolving Debt
	- Revolving debt must be included if there is a balance indicated on the credit report. If the monthly payment is not included in the credit report the underwriter will calculate the payment using the greater of $10.00 or 5% of the outstanding balance. If the actual dollar amount is documented by the creditor or a current monthly statement, that amount may be used for qualifying.
	- Cash-out refinance transactions
	  - If paid off prior to closing, documentation must be included in the loan file that the account was paid off and closed.
	  - Payoff must be indicated on the HUD-1
	  - Closing agent must verify that the account(s) were closed prior to disbursement.
	• **Deferred Student Loans**
	- Payments deferred or in forbearance > 12 months from the Note date may be excluded from the DTI ratios
	- Payments in forbearance due to financial hardship must be included in the monthly DTI

Credit Report/Scores **Refer to Credit Score 620-639 topic for state specific requirements.**	Minimum credit score requirements are as follows: 1-unit conforming and high balance minimum 580 credit score; refer to the Credit Score 580-619 topic for requirements. • 1-4 units conforming loan amount and 1- unit high balance minimum 620 credit score • 2-4 units high balance minimum 660 credit score. NOTE: REMN will consider loans where none of the borrowers have a credit score subject to FHA guidelines on a case-by-case basis. • A tri-merged credit report is required for all borrowers. • The primary borrower (the borrower with the highest income) must meet the minimum credit score requirement. • The representative credit score is determined as follows: - If there are three (3) valid scores, the middle score is used. If two of the three scores are a duplicate, the duplicate score is used. - If there are two (2) valid scores, the lower of the two is used - If there is one (1) valid score, that score is used • When there are multiple borrowers on a loan, the lowest representative credit score of all borrowers is the decision credit score. *Example:* - Borrower 1: Credit scores are 640, 654, 660; representative score is 654 - Borrower 2: Credit scores are 625, 637; representative score is 625 The loan decision score is 625 which is the lowest representative score of all borrowers • The borrower(s) must address **all** credit inquiries indicated on the credit report within the previous 120 days and indicate the reason for and result of the inquiry (i.e. was new credit obtained or not). ***Examples:*** - *Acceptable Response:* Chase, Wells & Bank of America credit pulled while searching for a mortgage on property located at 123 Main Street; no credit was obtained. - *Unacceptable Response:* "We did not accept any credit for the inquiries listed on our credit report: or "We did not accept any credit from Chase, Wells & Bank of America" (neither response specifically addresses both the inquiry and disposition).

FHA Program Guidelines

Credit Report/Scores (cont.)
 	
Refer to Credit Score 620-639 topic for state specific requirements.
	• REMN will allow loans **on a case-by case basis where not all borrowers have a credit score subject to the following:**
	- Determine if a "primary borrower" exists. If a primary borrower exists (meets all of the requirements below) the loan may proceed without additional documentation. A primary borrower is defined as:
	  - The individual who will be occupying the property, **and**
	  - Has more than 50% of the qualifying income, **and**
	  - Meets the minimum tradeline requirements (3 tradelines, each with 12 month history and 1 of the 3 must have been active within the past 24 months).
	  - If a "primary borrower" cannot be established (no borrowers meet all of the above criteria), non-traditional credit requirements apply as detailed in HUD Mortgagee Letter 2008-11.
	• When none of the borrowers have a credit score they are subject to HUDs requirements for borrowers with non-traditional credit. Refer to HUD Mortgagee Letter 2008-11 issued April 29, 2008, for detailed information. Transactions where none of the borrowers have a credit score are considered on a case-by-case basis.

Credit Score 580-619	The following applies when the borrower's credit score is between 580-619:
	• Maximum LTV/CLTV:
	  - **Purchase transactions**: 90% LTV/CLTV. Minimum 12 months documented mortgage history, indicating 0x30 in 12 months is required. < 12 months mortgage history is ineligible. No gift or DPA funds allowed for down payment; all funds for down payment must be from borrower own funds.
	  - **Refinance transactions**:
	    - Rate/term: 90% LTV/CLTV
	    - Cash-out : 85% LTV/CLTV (HUD maximum)
	    - Minimum 2 year payment history on the current loan with 0x30 in previous 24 months is required on all refinance transactions
	• 1-unit properties only (attached/detached SFR, PUDs, condos)
	• Maximum DTI 31%/43%. Maximum applies to both ratios individually (i.e. if the DTI is 34%/42% the loan is ineligible). **No exceptions.**
	• No gifts or DPA funds allowed for down payment. Gift funds eligible for closing costs and/or to reduce LTV only after 10% borrower own funds for down payment requirement is met.
	  - Two (2) months bank statements required to document borrower own funds requirement. Bank statements provided must be dated for the two months prior to the application date
	  - A letter, signed by all borrowers, stating that all funds used for the 10% down payment requirement are borrower own funds, will be required.
	• Purchase transactions require a twelve (12) month mortgage history with 0x30 in previous 12 months verified by an in-file credit report. Borrowers without a mortgage history (currently renting or living rent free) or with < 12 months mortgage history are **ineligible**.
	• Maximum payment shock is 100%. Payment shock > 50% - 100% is subject to the following:
	  - Standard **residual income requirement must be doubled** (i.e. if VA normally requires residual income of $350 a minimum of $700 would be required).
	• Property flips (property being re-sold ≤ 90 days from acquisition) are ineligible.
	Additionally, the requirements under the Credit Score 620-639 topic apply when the property is located in one of the states identified

FHA Program Guidelines

Credit Score 580-619 (cont).

Residual income requirements*:

Loan Amounts ≤ 79,999				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1,004
Over 5	Add $75.00 for each additional family member up to 7.			

Loan Amounts ≥ 80,000				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1003	$1,117
5	$1,062	$1,039	$1,039	$1,158
Over 5	Add $80.00 for each additional family member up to 7			

Geographic Regions as Identified by VA			
Northeast	Connecticut Maine Massachusetts	New Hampshire New Jersey New York	Pennsylvania Rhode Island Vermont
Midwest	Illinois Indiana Iowa Kansas	Michigan Minnesota Missouri Nebraska	North Dakota Ohio South Dakota Wisconsin
South	Alabama Arkansas Delaware District of Columbia Florida Georgia	Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma	Puerto Rico South Carolina Tennessee Texas Virginia West Virginia
West	Alaska Arizona California Colorado	Hawaii Idaho Montana Nevada	New Mexico Oregon Utah Washington Wyoming

*Reminder, residual income requirements must be doubled if payment shock is 50.01% to 100%

Credit Score 620-639	If the subject property is located in **Alabama, Arkansas, Connecticut, Delaware, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Missouri, New Jersey, New Mexico, New York, Oklahoma, Rhode Island, South Carolina, or Tennessee, AND the borrower has a credit score of 620-639,** the following applies: • Gifts are not permitted. Grants, DPA & Community 2nds are eligible as allowed per HUD • 0x30 in past 12 months housing history required • Borrowers without prior 12 months housing history maximum 90% LTV. Housing history acceptable documentation is12 months cancelled checks or copies of money orders. A VOR is acceptable from a previous landlord only. NOTE: The additional requirements detailed above **do not apply** to borrowers with a credit score ≥ 640 even if the property is located in one of the states identified above **or** to borrowers with a 620-639 credit score and the subject property is **not** in one of the states above.
Derogatory Credit	**Bankruptcy** Bankruptcy does not automatically disqualify the borrower from obtaining FHA insurance subject to the following guidelines. • ***Chapter 13*** ***Currently in Chapter 13*** - Borrower has completed 1 year of the payout period, and - Borrower has made all required payment on time, and - The borrower has received written permission from the bankruptcy court to enter into a mortgage transaction. ***Discharged with DU "Approve" Finding*** - > 2 years have elapsed since discharge date - If not discharged for a minimum of 2-years the loan will be downgraded to a "Refer" and a manual underwrite is required. • ***Chapter 7*** - Two years has elapsed since discharge date to application date (1 year with documented extenuating circumstances), and - Borrower has re-established good credit and shown an ability to manage credit, and - Provide letter of explanation for bankruptcy filing. **Consumer Credit Counseling** - One year of payout under the plan has elapsed - All payments have been made on time - The Counseling Agency has provided written permission for the borrower to enter into a mortgage transaction - If an "Approve/Eligible" Finding is received, no explanation or other documentation is required from the borrower. **Delinquent Child Support** Delinquent child support must be paid current or in a payment plan. On a case-by-case basis this requirement may be waived subject to underwriter review. **Foreclosure** • Borrowers are generally not eligible for new FHA financing if a foreclosure or deed-in-lieu has occurred in the previous 3 years. • If ≥ 3 years from the foreclosure settlement date to the application date the borrower is eligible subject to the following: - Borrower must have re-established credit - No late housing or installment payments after the foreclosure, and - A letter of explanation as to the reason for foreclosure. NOTE: If the foreclosure was included in a Chapter 7 bankruptcy, the date of the foreclosure deed is used for determining the foreclosure date.

Derogatory Credit (cont.)	Collection/Charge-off/Judgments

Derogatory Credit (cont.)

Collection/Charge-off/Judgments

Loans that do not receive an "Approve/Eligible" Finding, the borrower is required to provide a letter of explanation for all collection, charge-off accounts and judgments for each outstanding account and/or judgment. The letter must document that the collection and/or judgment was not due to the borrower's disregard of their financial obligation or their ability to manage debt.

Collections/Charge Offs

The underwriter must consider the borrower's ability to repay the mortgage when the cumulative balance for all borrowers of collection/charge-off account(s) is > $2,000 (including any collection accounts of a non-purchasing spouse in community property states unless excluded by state law) on both manual underwrites and loans with a DU Finding.

All medical collection accounts and all charge-off accounts (medical and non-medical) **are excluded** from the collection/charge-off guidance. All non-medical collection accounts **must be included.**

- **Accounts Cumulative ≥ $2,000**

  One of the following is required:

  1. Payment in full prior to or at closing. Source of funds for payoff must be documented, **or**
  2. If borrower currently in a payment plan (no minimum time required) the payment must be included in the DTI, **or**
  3. If a payment plan not established, calculate 5% of the outstanding balance and include in the DTI calculation.

- **Accounts Cumulative < $2,000**
  - No action required. Accounts cannot be paid down to < $2,000.

Judgments

- Judgments are required to be paid off, **including** judgments against a non-purchasing spouse in community property states (unless excluded by state law) **and** medical judgments. The payment requirement may be waived if the borrower is currently in a payment plan with the creditor subject to:
  - A copy of the agreement is provided, and
  - The borrower has made a minimum 3 months of the scheduled payments as agreed prior to credit approval. Supporting documentation is required.
  - Payments must be included in the DTI calculation

  NOTE: The borrower **cannot** prepay scheduled payments to satisfy the 3 month requirement.

Disputed Accounts – Derogatory

A derogatory disputed account is defined as:

- A disputed collection account, or
- A disputed charge-off account, or
- Disputed accounts (revolving, installment, etc.) with late payments in the previous 24 months.

A letter of explanation is required from the borrower whenever a derogatory disputed account is indicated on the credit report regardless of the cumulative balance.

- Disputed accounts **not required** in cumulative total:
  - Disputed medical accounts,
  - Disputed accounts that are the result of documented identity theft. If documentation cannot be provided (e.g. police report) to substantiate the claim the amount must be included in the cumulative total,
  - Disputed derogatory credit account of a non-purchasing spouse in a community property state,
  - Non-derogatory disputed accounts.

Derogatory Credit (cont.)	**Disputed Accounts – Derogatory** (cont.) • ***Disputed Accounts ≥ $1,000 (cumulative for all borrowers)*** - Loans with an "Approve/Eligible" Finding must be downgraded to a manual underwrite if the credit report indicates there are disputed accounts with a cumulative total (includes disputed accounts for **all** borrowers) is ≥ $1,000. - The underwriter determines if the disputed account(s) must be considered in the credit decision and at underwriter discretion, the account may be required to be resolved prior to loan closing. • ***Disputed Accounts < $1,000 (cumulative for all borrowers)*** - A downgrade to a manual underwrite is not required if the cumulative total of all disputed accounts is < $1,000. **Disputed Accounts – Non-Derogatory** Non-derogatory disputed accounts are: • A disputed account with a zero balance, or • A disputed account with late payments aged 24 months or greater, or • A disputed account that is paid as agreed. Non-derogatory accounts are not included in the cumulative total, however the underwriter must address when considering the borrower's ability to repay the loan including the impact to the DTI. **Tax Liens** Tax liens must be paid or subordinate to REMN's 1st lien and must have a 0x30 in 12 months payment history. **Short Sale** Borrower(s) are **not** eligible for a new FHA insured mortgage if they pursued a short sale agreement on their primary residence to strategically take advantage of declining market conditions to purchase a similar or superior property within a reasonable commuting distance from the short sale property at a reduced price as compared to current market value. Borrowers with a short sale may be eligible for a new FHA insured mortgage subject to the following: • ***Borrower Current at Time of Short Sale*** - Mortgage payments due on the prior mortgage were made within the month due for the 12 months preceding the short sale, and - Installment debt payments for the same time period were also made within the month due • ***Borrower in Default at Time of Short Sale*** - A borrower in default on their mortgage payment at the time of the short sale (or pre-foreclosure sale) or a borrower is not eligible for a new FHA insured mortgage for 3 years from the date of the pre-foreclosure sale. - A borrower who sold their property under FHA's pre-foreclosure sale program is not eligible for a new FHA insured mortgage for 3 years from the date that FHA paid the claim associated with the pre-foreclosure sale. - An exception to the above may be made if the default was due to extenuating circumstances, such as death of the primary wage earner or a long term un-insured illness. A review of the credit report must indicate satisfactory credit prior to the extenuating circumstances that cause the default.

Derogatory Credit (cont.)	• ***Short Payoff/Modified/Restructured Loans***
	- Borrowers are eligible for an FHA rate/term refinance when the existing Note holder(s) will write off the amount of the indebtedness that cannot be refinanced in the new FHA insured mortgage subject to the following:
	  - The borrower is current on their existing mortgage, and
	  - There is insufficient equity in the home based on its current appraised value, and/or
	  - The borrower experienced a reduction in income and does not have the capacity to repay the existing mortgage on the property.
	In cases where the existing Note holder(s) is reluctant, or not willing, to write down the indebtedness, a new subordinate lien may be obtained for the amount of which the payoff is short. If payments on the new subordinate financing are required, they must be included in the qualifying ratios unless the payment has been deferred for a minimum of 36 months.

Down Payment	The minimum down payment requirement is 3.5% from the borrower's own funds or from an acceptable gift/donor, grant or DPA program unless the borrower is purchasing a property utilizing HUDs REO $100 Down Program.
Down Payment Assistance Programs / Grants	• Funds from a DPA / grant program are eligible for down payment, closing costs, etc. • DPA / grant program must be eligible Community Seconds as allowed per HUD; any non-profit organization must be HUD approved. • Borrowers with a credit score of 580-169 must meet 10% down payment from own funds; DPA eligible for closing costs, etc. after 10% borrower own fund requirement is met.

DTI	• Maximum DTI for loans with a credit score of 580-619 is 31%/43%, **no exceptions**.
	• Maximum DTI for loans with a credit score of 620 - 639 is 45% based on occupant borrower only.
	• Maximum DTI for loans with a credit score of 640–659 is 50%. Exceptions to exceed 50% may be granted on a case-by-case basis.
	• Maximum DTI per DU/Total Scorecard with a credit score ≥ 660
	• Loans that received a "Refer" Finding from DU/TOTAL Scorecard and require manual underwriting or have been downgraded to manual underwriting after a DU/Total Scorecard "Approve/Eligible" Finding, the maximum DTI is 31%/43% unless HUD requirements are met. Refer to the Manual Underwrites topic for maximum DTI and acceptable compensating factors as required by HUD.
	• Illinois 2-4 units, NJ and NY 3-4 units the maximum DTI 45%
	• The debt-to income ratio includes the following:
	  - Monthly housing expense, and
	  - Additional recurring charges extending 10 months or more, such as
	    - Installment accounts,
	    - Child support or separate maintenance payments,
	    - Revolving accounts, and
	    - Alimony
	• Monthly payments on revolving or open-end accounts, regardless of their balances, are counted in the DTI for qualifying purposes even if the account may be paid off within 10 months or less.
	• Debts with less than 10 months remaining must be included in the DTI if the amount of the debt will affect the borrower's ability to pay the mortgage in the months immediately following loan closing particularly if the borrower has limited or no reserves.

Employment/Income

- A two year employment history is required for both wage earners and self-employed borrowers.
- A verbal verification of employment (VVOE) is required within10 calendar days of the Note date for salaried borrowers and 30 days for self-employed borrowers

  NOTE: A fully completed VOE is only acceptable as a supplement to the VVOE to further explain the type of income earned (e.g. breakdown of base, OT, bonus, commission, etc.)
- A current paystub with YTD of at least one month, and W-2s for prior 2 years or per DU Findings.
- A borrower who has returned to work after an extended absence (6 months or more) will be allowed to use their current income if:
  - The borrower has been employed in their current job for 6 months or longer, and
  - A 2 year work history, prior to the absence from employment, can be documented (e.g. copies of W-2s or paystubs from previous job required).
- **Self-employed borrowers**
  - Self- employed borrowers are individuals who have 25% or greater ownership interest in a business.
    - Self-employed borrower's business requires verification of the business by a third party source (e.g. CPA, Federal Tax ID Certificate, and Business License).
    - FHA considers income from self-employed borrowers to be stable if the borrower has been self-employed for 2 or more years. Borrowers with 1-2 years self-employment history may be eligible subject to the following:
      - Borrower has 2 years documented previous successful employment in the line of work in which they are self-employed or it is a related occupation, or
      - A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable.

  NOTE: < 1 year of income from self-employment is not considered effective income
    - Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines.
    - Income must not be declining more than 10% per year. If income declining more than 10% the lowest income must be used to qualify.
    - Depreciation and/or depletion may be added back
    - Signed and dated individual tax returns, with all applicable tax schedules, for the most recent two years are required.
    - Corporations, S-Corporation or partnership are required to provide signed copies of Federal Business income tax returns for the last 2 years with all applicable tax schedules.

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- Year-to-date Profit & Loss (P&L) statement and balance sheet are required 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
  - Additionally, if the income used to qualify the borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
  - Borrowers who do not use a CPA or Tax Service Professional may supply an unaudited P&L or quarterly tax returns obtained from the IRS
    - An example of a situation of when an unaudited P&L would be acceptable is a borrower who owns a small business where the borrower self-prepares their tax returns or they engage a CPA/Tax preparer they only do on an annual basis
    - Regardless of who prepares the unaudited P&L cannot be used in the income calculation.
    - A business credit report is required for corporations and S-corporations.

  NOTE: A business credit report is not required if the loan receives a TOTAL Scorecard "Approve" recommendation.

Employment/Income (cont.)	**Employed by Family Business** • In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that they are not the owner of the business. Acceptable evidence includes; - Copies of signed personal tax returns, or Signed copies of the corporate tax returns showing ownership percentage. **Automated Underwriting Findings** • If TOTAL Scorecard returns an "Approve" recommendation, the borrower will not be required to provide business tax returns if all of the following requirements are met: - Individual federal tax returns show increasing self-employment income over the past 2 years - Funds to close are not coming from business accounts, and - The proposed FHA insured mortgage is not a cash-out refinance. **Other Income** • ***Rental Income*** - Subject Property - Rent received for properties owned by the borrower is acceptable income for qualifying as long as the lender can document the stability of the rental income. Acceptable documentation includes: - A current lease agreement to lease, or - Rental history of the previous 12 months that is free of unexplained gaps > 3 months - 1040's are required unless the property was purchased within the previous 12 months. - Other Real Estate Owned - Rent received for properties owned by the borrower is acceptable income for qualifying as long as the lender can document the stability of the rental income. Acceptable documentation includes: - A current lease agreement to lease or, or - Rental history of the previous 12 months that is free of unexplained gaps > 3 months - 1040s required unless property purchased within the past 12 months • **Rental Income** - Conversion of Current Residence - Rental income from a principal residence that is being vacated will **not** be considered for qualifying purposes **except as follows**: - Rental income from all units of the property being vacated can be used to qualify as long as the appropriate vacancy factor is used (determined by the applicable HOC) provided the reason for the relocation is acceptable or the sufficient equity requirement is met as detailed below. - ***Relocations*** - The borrower is relocating due to new job or job transfer to an area not within reasonable/locally recognized commuting distance - An executed lease agreement, for a minimum of 1 year, is required. Evidence of the security deposit and/or one months' rent is recommended. - ***Sufficient Equity in the Property*** - The borrower has an LTV of 75% or less as determined by: - An appraisal that is no more than 6 months old, or - An Exterior-Only appraisal (2055) or (1075).

Employment/Income (cont.)	**Projected Income from New Job** Projected income from a new job that the borrower is scheduled to start is eligible subject to REMN Management approval and the following: • The borrower must be scheduled to start the new position within 30 days of loan closing, • The borrower's previous employment and income history must be documented • A non-revocable, guaranteed employment contract is required. • Borrower must have sufficient other income or cash reserves to pay the mortgage and all other obligations from loan closing to the start of the new job. • A letter, signed by the borrower(s) is required, certifying that a paystub or other acceptable documentation to validate the borrower has started employment will be provided as soon as received by the borrower. **Social Security Income Documentation Requirements** Income received from the Social Security Administration (e.g. social security, Supplemental Security Income (SSI), disability, etc.) is eligible for qualifying the borrower when the income can be verified and it is likely to continue form a minimum of three (3) years from the date of the mortgage application. NOTE: Income that will not continue for a minimum of three (3) years may only be considered as a compensating factor. ***Verifying SSA Income***: Any of the following is acceptable: • Federal tax returns, • Social Security Award Letter (aka Benefits Letter/Budget Letter), • Social Security Benefits statement (SSA 1099/1042S), or • Most recent bank statement evidencing receipt of the income from SSA. ***Verifying Continuance of SSA Income***: To document the continuance of the SSA income for three (3) years obtain the most recent Notice of Award Letter or equivalent documentation. If an expiration date is not stated it can be considered likely to continue. Additional information is **not** required to establish length of receipt. Additionally, **never** request documentation concerning the nature of disability or medical condition and evidence of a pending or current re-evaluation of medical eligibility **should not** be considered an indication the benefits will not continue. The income stated on an initial Notice of Award Letter (or equivalent) ,which indicates the borrower will be receiving benefits, may be used as effective income as of the start date of the income as stated on the Award Letter. The borrower must have other income to qualify for the mortgage until the start date of the benefit. ***Other Long-Term Disability Income:*** Other long term disability income (workers compensation, private insurance) may also be used for qualifying income following the guidelines above.

Escrow Holdbacks	**HUD REO $100 Down Payment Program** • Repair costs can be included in the loan amount calculation to a maximum 110% LTV. • REMN will require an escrow hold of 110% of the estimated repair cost. • Maximum repair amount cannot exceed $5,000. Repairs required to bring the property to FHA's minimum property requirements are determined by the appraiser • Prior to closing, utilities must be turned on and verified as operating properly • Prior to closing, any required certifications (well, septic, termite) must be obtained and if repairs are needed, must be included in the $5,000 cap. • Open repair items must be specifically outlined and supported by a contractor's estimate. • Repairs must be completed within 2 weeks (14 calendar days) from disbursement date. • A final inspection fee will be collected • Standard Repair Escrow Agreement must be executed • Borrower is required to contact the broker when repairs have been completed. The broker will be responsible for ordering the final inspection. **Home Fixer – Repair Escrow Option Program** • Maximum amount of repairs is limited to $5,000 • Required repairs cannot impact the habitability or safety of the subject property • An estimate from a licensed contractor or other qualified professional, listing all repairs required • 1.5 times the amount of the estimate will be held in escrow • Repairs must be completed within 14 days of loan disbursement and the final inspection must be received within 72 hours NOTE: Properties that do not meet FHA's "minimum property standards" requirement may be eligible for an Escrow holdback. If an escrow holdback is approved, the appraiser must confirm the work completed will bring the property up to average condition.
Impound Account	Required on all loans, no exceptions.
Financed Properties	REMN Wholesale Overlay: • Borrowers who own more than four (4) properties (including the subject property) are not eligible for financing with REMN Wholesale. Exceptions may be granted on a case-by-case basis with REMN Wholesale management approval. A price adjustment may apply. • No multiple simultaneous loan submissions allowed if contingent to qualify. • REMN limits its exposure to a maximum of 4 loans per borrower.

Gift Funds	• Gift funds, including DPAs are **ineligible** for the down payment with a credit score of 580-619. Gift funds may be used after the borrower meets the 10% down payment from own funds requirement closing costs or to further reduce the LTV.
	• **Gift funds are ineligible if the borrower has a credit score of 620-639 AND the property is located in Alabama, Arkansas, Connecticut, Delaware, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Missouri, New Jersey, New Mexico, New York, Oklahoma, Rhode Island, South Carolina, or Tennessee.** Grants and funds from a HUD Approved, non-profit down payment assistance (DPA) program & community seconds are eligible.
	• With the exception of the above restrictions, gift funds, grants and DPA funds are eligible for down payment, closing costs and reserve requirements if required.
	There must be no expected or implied repayment requirement of the gift funds.
	NOTE: Cash on hand is not an acceptable source of gift funds.
	• A gift is acceptable if the donor is:
	- A relative of the borrower,
	- A close friend with a clearly defined and documented interest in the borrower,
	- A charitable organization approved by FHA,
	- A government agency or public entity that has a program providing home ownership assistance to low and moderate income families or fist-time homebuyers.
	• 3-4 unit properties require the borrower to have personal reserves equivalent to 3 months PITI after closing on a purchase transaction. Reserves cannot be from a gift.
	• Gift funds must be evidenced by a gift letter, signed by the donor and it must:
	- Specify the dollar amount,
	- Be signed by the donor and the borrower,
	- Specify the date the funds were transferred and source of funds,
	- Indicate the donor(s) name, address, phone number, and relationship to borrower, and
	- Include a statement by the donor that no repayment of the gift funds is expected.
	• The gift donor may **no**t be a person or entity with an interest in the sale of the property including:
	- Seller
	- Real estate agent or broker
	- Builder or associated entity
	Gifts from these sources are considered “inducements to purchase” and must be subtracted from the sales price.
	• Regardless of when gift funds are made available to the borrower, it must be determined that the gift funds were not provided by an unacceptable source and that the gift funds were the donor’s own funds.
	• Gift fund availability and transfer of the funds must be documented. Verification of transfer of funds must be documented as noted below:
	- Gift funds provided prior to closing
	  - Copy of the donor’s cancelled personal check (front and back); or other conclusive evidence that the money was withdrawn from the donor’s account (conclusive evidence might be a withdrawal slip or bank statement and the borrower’s deposit slip and/or bank statement/print out verifying the deposit.
	  - Certified check from donor’s account: Document with the bank statement showing the withdrawal and a copy of the certified check.
	  - Bank check (cashier’s check, money order): Document with withdrawal slip or cancelled check from the donor’s personal account for the amount of the gift
	  - Wire transfer: Document with copy of wire transfer.
	NOTE. When a bank statement is used to document funds, the donor **may** be required to document large deposits to ensure the funds did not come from an interested third party.
	• Gift funds are not allowed at closing; may be considered on an exception basis only.

Gift Funds (cont.)	FHA allows donors to borrow gift funds from any acceptable source provided the borrowers are not obligors to any Note to secure the money borrowed for the gift. Written evidence that the funds were borrowed from an acceptable source and not from a party to the transactions is required **OR** copy of the loan document verifying the loan is in the name of the donor and borrower is not responsible for repayment. A copy of the deposit slip verifying the deposit and bank statement/print out indicating deposit.
Gift of Equity	• Allowed from an immediate family member only. Identity of interest applies. • A gift letter must be provided (refer to gift funds above for gift letter requirements • The HUD-1 must indicate "gift of equity".
Identity of Interest	Defined as the purchase of a primary residence between parties with a family or business relationship/business affiliates. • The maximum LTV for an identity of interest transaction is 85% • For the purpose of Identity of Interest transactions, FHA defines a family member as: - Child (son/stepson, daughter/stepdaughter) - Parent or grandparent (step-parent/grandparent or foster parent/grandparent) - Spouse, - Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption, - Foster child, - Brother/stepbrother - Sister/stepsister - Aunt/Uncle. **Exceptions to the maximum LTV for Identity of Interest Transactions** FHA will allow financing above 85% in specific circumstances as detailed below: • A family member purchases another family member's home as a principal residence. If the property being sold between family member's is the seller's investment property, the maximum mortgage is the lesser of: - 85% of the appraised value, **or** - The appropriate LTV factor applied to the sales prices, plus or minus required adjustments. • A current tenant, including a family member, who has been a tenant occupying the property for a minimum of 6 months preceding the purchase contract. Evidence, such as a lease or other written evidence, is required to verify occupancy. • An employee of a builder purchases one of the builder's new homes or models as a principal residence. • A corporation: - Transfers an employee to another location, - Purchases the employee's home, and - Sells the home to another employee.
Inspections	• Septic inspections are only required when the appraiser indicates there is evidence the septic system be failing, are required by state or local jurisdictions, or customary for the area, or at the discretion of the underwriter. • Termite inspections are only required when the purchase contract requires one, or the appraiser indicates there is evidence of active infestation. • Well inspections are only required when state or local regulations require, if there is indication the well may be contaminated or at the discretion of the underwriter.

Manual Underwrites AND DTI Exceeds 31%/43% **(Applies to case numbers assigned on or after 4/21/14)**	Manual underwrites are subject to the following HUD requirements. The table below identifies the maximum eligible DTI as determined by the applicable compensating factor. Detailed compensating factor requirements follow.

Credit Score/ Compensating Factor(s)*	Maximum DTI	Requirements
620+ No Compensating Factor	31% / 43%	• Max DTI cannot be exceeded per HUD new requirements; underwriter discretion no longer allowed • Must meet HUDs new manual underwriting cash reserve requirement: - 1-2 units: Minimum 1 month reserves - 3-4 units: Minimum 3 months reserves
620+ **and** One Compensating Factor	37% / 47%	Compensating factor **must be one** of the following: • Additional cash reserves - 1-2 units: Minimum 3 months reserves - 3-4 units: Minimum 6 months reserves • Minimal housing increase* • Residual income* • Additional income not used for qualification*
620+ **and** Two Compensating Factors	40% / 50%	Compensating factors **must be two** of the following: • Additional cash reserves - 1-2 units: Minimum 3 months reserves - 3-4 units: Minimum 6 months reserves • Minimal housing increase* • Residual income* • Additional income not used for qualification*
620+ **and** No Discretionary Debt	40% / 40%	• All requirements under the "No Discretionary Debt" topic must be met. • Must meet manual underwriting cash reserve requirement: - 1-2 units: Minimum 1 month reserves - 3-4 units: Minimum 3 months reserves

*Minimum reserve requirements for manually underwritten loans must still be met

- 1-2 units: Minimum 1 month reserves
- 3-4 units: Minimum 3 months reserves

Manual Underwrites AND DTI Exceeds 31%/43%

(Applies to case numbers assigned on or after 4/21/14)

Eligible Compensating Factors:

Compensating Factor	Requirement
Additional Cash Reserves	• 1 and 2 units: 3 months or more of the total monthly mortgage payment (PITI + MIP) • 3 and 4 units: 6 months or more of the total monthly mortgage payment (PITI + MIP) Retirement accounts (IRA, 401K, Keogh, etc.) are eligible to satisfy reserve requirements subject to: • Maximum 60% of the vested account, minus any outstanding loan balance(s) may be used (any funds used for loan settlement must be excluded) • The account allows for withdrawals other than for retirement, death or employment termination. If not, the funds are ineligible towards reserves. The following are **ineligible** to meet reserve requirements: • Any cash-back from the transaction • Gift or borrowed funds • Equity in other real estate owned
Minimal Housing Increase	Minimal housing increase defined as: • New monthly mortgage payment (PITI + MIP) does not exceed the current housing payment by the lesser of: - $100, **or** - 5% of the current housing payment, **and** • Borrower **must have** a documented 12 month housing history; if 12 months housing cannot be documented the minimal housing increase cannot be used as a compensating factor. The following applies to the required housing history: - Purchase and rate/term refinance transactions: - Maximum 1x30 in previous12 months - Cash-out transactions: 0x30 in previous 12 months
No Discretionary Debt	May be considered a compensating factor when: • The **only** open account with an outstanding balance that is not paid off monthly is the borrower's mortgage (N/A to purchase borrowers who currently rent), **and** • The borrower's credit report indicates established tradelines, open for a minimum of 6 months, in the borrower's name (authorized user accounts **not** eligible), **and** • The borrower has paid any account balances in full for the previous 6 months (documentation of payment is required)

<table>
<tr><td rowspan="2">Manual Underwrites AND DTI Exceeds 31%/43%

(Applies to case numbers assigned on or after 4/21/14)</td><td>Eligible Compensating Factors (cont.)</td></tr>
<tr><td>
<table>
<tr><th>Compensating Factor</th><th>Requirement</th></tr>
<tr><td>Additional Income

(income that was not used to qualify for the loan)</td><td>The following additional income is eligible, if not used for qualification:
Bonus,
Overtime,
Part-time/seasonal
The borrower must be able to document receipt of the income for a minimum of 1 year but < 2 years and is likely to continue AND if the income had been used for qualifying the DTI would not be more than 37%/47%.
Eligible as follows:
If DTI will not exceed 37%/47% may be used as the only compensating factor; no additional compensating factor required.
If DTI exceeds 37%/47% but is not more than 40%/50% another compensating factor, in addition to additional income, is required.
NOTE: Income from anyone not a borrower on the loan may not be used (non-borrowing spouse, domestic partner, etc.)</td></tr>
<tr><td>Residual Income</td><td>Eligible subject to VA residual income guidelines.
All of the borrower’s household members are counted regardless of the relationship to the borrower or if they will be on the loan with the exception of “self-sufficient” household members (i.e. the household member who fully supports themselves, with verifiable income, and that income was not used for qualifying)
Residual income is determined by taking the gross monthly income of all occupying borrowers and deducting the following:
- Federal and state taxes, social security,
- Proposed housing payment
- Fixed monthly expenses (revolving/installment debt, child support/alimony obligations, child care expenses, and
- Home maintenance costs (calculated at 14¢ per square foot)
NOTE: Grossed-up income cannot be used to meet residual income Requirements.</td></tr>
</table>
</td></tr>
</table>

Manual Underwrites AND DTI Exceeds 31%/43% **(Applies to case numbers assigned on or after 4/21/14)**	Residual income requirements:

Loan Amounts ≤ 79,999				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1,004
Over 5	Add $75.00 for each additional family member up to 7.			
Loan Amounts ≥ 80,000				
Family Size	**Northeast**	**Midwest**	**South**	**West**
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1003	$1,117
5	$1,062	$1,039	$1,039	$1,158
Over 5	Add $80.00 for each additional family member up to 7			

Geographic Regions as Defined by VA			
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

Mortgage/Rental History	• Credit score of 580-619 requires the following: - **Purchase transactions:** A minimum 12 month documented mortgage history with 0x30 in previous 12 months verified by in-file credit report is required. Borrowers without a 12 month mortgage history (currently renting or living rent-free with family) are **ineligible**. - **Refinance transactions:** Minimum 2 year payment history on the current loan with 0x30 in previous 24 months required; < 2 year payment history the loan is ineligible. • Credit score ≥ 620 requirements per DU Findings • 0x30 in the previous 12 months on loans downgraded to a manual underwrite. • 1x30 in the previous 12 months may be eligible on purchase or rate/term refinance transactions for extenuating circumstances at underwriter discretion. • Cash-out transactions require 0x30 in previous 12 months and require a 6 month pay history. • Mortgage must be current for the month closing. • Mortgage history must be verified for the previous 12 months if it does not appear on the credit report as follows: - Copies of rent checks or money orders to document rental payment history are required per DU Findings. In lieu of rent checks/money orders, at the underwriter's discretion a direct verification of rent (VOR) provided by a professional management company may be acceptable. VORs from private individuals are not eligible.

Multiple FHA Loans	• Generally a borrower is only allowed to have one FHA loan and is not eligible to acquire another FHA mortgage until they have paid off the mortgage or terminated ownership.
	• More than one FHA loan is allowed under very specific circumstances as detailed below.
	- ***Relocations***
	  - Borrower is relocating and establishing residency in an area outside a reasonable commuting distance from his/her current primary residence. The relocation is not required to be employer mandated.
	- ***Increase in Family Size***
	  - Borrower is required to provide evidence of the increase in family size and the current properties failure to no longer meet the family's needs, and
	  - The LTV ratio of the current property must be 75% LTV or less, based on the outstanding mortgage balance and an appraisal. If not, the borrower must pay the current loan down to 75% LTV or less.
	- ***Vacating a Jointly Owned Property***
	  - The residence will remain occupied by a co-borrower
	- ***Non-Occupying Co-Borrower***
	  - Eligible

<table>
<tr><td>Non-Occupying Co-Borrower</td><td>

Maximum 75% LTV (1-4 units)
The 75% LTV may be exceeded up to the maximum allowable LTV on a 1-unit property only if the non-occupant co-borrower is:

Related by blood, marriage or law (i.e. spouses, parent-child, siblings, step-children, aunt, uncle, etc.)
NOTE: If a parent is selling to a child, and the parent will be the non-occupying co-borrower, the maximum LTV is limited to 75%.
An unrelated individual that can document evidence of a family-type, longstanding and substantial relationship not arising out of the loan transaction.

Additionally the following applies:

All borrowers, regardless of occupancy status, must sign the security instrument and Note. Co-signers do not execute the security instrument or take title, but they must sign the Note.
Occupying borrowers with insufficient credit are subject to the following:

When the occupying borrower has insufficient credit DTI may not exceed 31%/43% and apply only the borrowers occupying the property and obligated on the loan.
Compensating factors are not applicable for borrowers
Occupying borrowers are required to have 2 months cash reserves from their own funds. Cash gifts from any source are ineligible to be used to meet reserve requirements.
Refer to HUD Mortgagee Letter 2008-11 for detailed requirements regarding borrowers with insufficient credit. Mortgagee Letters

Cannot be added to a cash-out refinance transaction. A non-occupant co-borrower may remain on the cash-out refinance if on the original transaction, however the loan will be subject to a manual underwrite and manual underwriting guidelines.
</td></tr>
<tr><td>Non-Purchasing Spouse</td><td>The debts of the non-purchasing spouse must be included in the borrower's qualifying ratios, unless specifically excluded by state law, if:

The borrowers reside in a community property state, or
The property being purchased is located in a community property state

NOTE: The credit history of the non-purchasing spouse is not considered a reason to deny a loan, however, their obligations must be considered in the DTI unless excluded by state law. A credit report for the non-purchasing spouse must be obtained to determine if the obligations should be included in the DTI.</td></tr>
<tr><td>Occupancy</td><td>Owner-occupied primary residence</td></tr>
<tr><td>Prepayment Penalty</td><td>Not permitted</td></tr>
<tr><td>Products</td><td>Fixed rate: 15 and 30 year
ARM: 5/1 Caps: 1/1/5 Margin: 2.00 Qualified using the Note rate Index: T-Bill</td></tr>
</table>

Properties – Eligible	• Single family residences • 2-4 units • PUDs (attached/detached) • Condominiums (FHA approved projects. Approval must be valid at time of case number assignment) • Modular/prefabricated properties 1-unit only. Factory built but not built on a permanent chassis; built on-site similar to stick-built homes; permanently affixed to the foundation; must conform to local building codes. Property is legally classified as real property and assumes characteristics of stick-built such as permanent connections to water, electrical and waste disposal systems.
Properties - Ineligible	• Non FHA approved condominium projects • Cooperative projects • Manufactured/mobile homes. Manufactured housing is defined as any dwelling built on a permanent chassis. **Manufactured homes are ineligible even if the towing hitch, wheels and axles have been removed**. • Condo Hotels (projects managed or operated as hotel/motel, hotel/motel conversions) • Unique properties • Farms, orchards, ranches • Rural property >10 acres. • Commercial property
Property Flips	The time frame for determining a property flip is measured from the date the seller acquired the property to the date of the purchase contract. • The following is required on all properties sold 0-360 days from the date the seller originally acquired the property. - The purchase contract must indicate the seller is the current owner of record. The transaction may not involve any sale or assignment of the contract. - All sales must be arm's length transactions. - The following sellers are exempt from FHA's property flipping rules: - HUD, VA, FNMA, FHLMC and other Government Agencies - Banks and/or mortgage companies - Properties acquired through inheritance - Relocation firms - Properties acquired by non-profits under agreements with state/local government agencies, and – Builders selling a new built (i.e. not previously occupied) home.

Property Flips (cont.)	• Property flip restrictions: – 2-4 units not eligible in Illinois; 1- unit only. – 3-4 units not eligible in New Jersey and New York; 1-2 units only. The following applies to 2-4 units in Illinois and 3-4 units in New Jersey and New York: – At least one full calendar year must have elapsed between the seller's acquisition of title and the execution of the sales contract (does not apply if the seller is a government agency, bank or bank subsidiary), **and** – The subject property must not currently be in foreclosure, **and** – The borrower and seller will be required to sign an affidavit stating that there is no relationship between them other than the transaction, **and** – Max DTI 45%, **and** – If LTV > 90% no gifts or grants permitted. • 1- 4 unit single family property flip transactions, except as noted above, are eligible subject to all of the following guidelines. Regardless of geographic area, all 2-4 unit properties subject to a Short Sale Agreement must have been listed on the MLS for a minimum of 30 days prior to the execution of the sales contract. If the property is designated as an "Exclusive Listing" the property is **ineligible.** **Property Re-Sold 0-90 Days from Acquisition –** (considered on a case-by-case basis) • **Minimum credit score of 640 required** • There cannot be any relationship between the seller and the borrower outside of the transaction; non-arm's length transactions are not eligible. • There can be no evidence of multiple property flips. • No "simultaneous" closing and/or "contract assignments". Seller on the contract of sale must be on title. • The property must have gone through significant renovation and/or rehabilitation (i.e. new paint and carpet alone is not acceptable). Repairs/renovation must be documented with receipts and substantiated by the appraiser. Before and after photos are preferred but not required. • Any increase in value must be commensurate with repairs/upgrades being completed. • A property inspection report is required. The report must address the property structure as well as all systems, insulation, roof, etc. Only recommendations effecting health and safety must be completed. • There should be no question regarding the reasonableness of the occupancy of the loan • Two full appraisals are required and the value must be well supported. The value used will be the lower of the two appraisals. Any required repairs of the appraisal report must be completed prior to closing. Borrower cannot be charged for the second appraisal. • Gifts only considered with donor's ability **Property Re-Sold 91 to 180 Days from Acquisition** • Two appraisals are required if the sales price is an increase greater than100% of the acquisition cost. At underwriter discretion, a second appraisal may be required when the increase is < 100%. The borrower cannot be charged for the second appraisal. **Property Re-Sold 181-360 Days from Acquisition** • Second appraisal only required at under writer discretion. The borrower cannot be charged if a second appraisal is required.

Properties Listed for Sale Within the Previous 12 months	• Properties that were listed for sale in the previous 12 months must be taken off the market prior to the application date. • A property listed for sale is eligible for a rate/term refinance if taken off market prior to application. • A property listed for sale is eligible for a cash-out refinance if the listing was cancelled, expired or withdrawn at least 180 days prior to the application date • The appraised value should be, at minimum, 10% below the lowest list price. If the appraised value is not 10% below the lowest list price, the underwriter will consider the relationship between the previous list price and the current appraised value. Any variance must be satisfactorily addressed by the appraiser.
Purchase Agreements Amended / Re-negotiated	• Not eligible if the sales price was increased **after** the original appraisal was completed if: - The appraised value is higher than the originally contracted sales price that was provided to the appraiser**, and** - The new purchase agreement and/or addendum to the purchase agreement is dated after the appraisal, **and** - The only change to the purchase agreement was the sales price. • If the purchase agreement was renegotiated after the completion of the appraisal, the LTV will be based on the **lower** of the original purchase price or the appraised value, unless: - The re-negotiation was only for seller paid closing costs and/or pre-paids where the seller paid closing costs/pre-paids are common and customary for the area and are supported by the comparables, or - The purchase contract was amended for a new construction property due to improvements made that impact the tangible value of the property. An updated appraisal report must be obtained to validate the value of the improvements.

Refinance Transactions	• Continuity of obligation requires that at least one of the borrowers on the refinance transaction is currently on the title of the property being refinanced.
	• Rate/term refinance transactions: The maximum mortgage is the lesser of:
	- 97.75% of the appraised value, or
	- If property owned < 12 months, 97.75% of lesser of appraised value or sales price.
	• Cash-out refinance transactions the LTV is determined as follows:
	- If the subject property has been owned by the borrower as their primary residence for ≥ 12 months, the LTV is based on the appraised value.
	- If the subject property has been owned by the borrower as their primary residence for 7 to 12 months the loan amount is limited to the lesser of
	  - 85% of the sales price of when the property was acquired, or
	  - 85% of the current value.
	- Properties owned 6 months or less are not eligible for cash-out.
	• If a borrower is refinancing their former investment property and they have occupied it for < 12 months, it may only eligible for a rate/term transaction and the maximum LTV is 85%.

Reserves	FHA requires the following in reserves: • 1-2 units: not required with “Approved/Eligible” Finding. • 1-2 units: 1 month PITI if manual underwrite (loans downgraded or with a “Refer/Eligible” Finding). • 3-4 units: 3 months PITI reserves regardless of underwriting method • Borrower with non-traditional/insufficient credit 2 months PITI reserves required (cannot be from gift funds).

Seller Contributions	• Seller and other third party contributions are limited to 6% of the sales price. • Certain expenses, paid by the seller and/or other interested 3rd party on behalf of the borrower, are considered "inducements to purchase". A dollar-for-dollar reduction to the lesser of the sales price or appraised value to the property is required prior to applying the appropriate LTV factor. These expenses include: - Contributions exceeding 6% of the sales price, - Contributions exceeding the actual costs of prepaid expenses, - Discount points and other financing concessions, - Decorating allowances, - Moving costs, - Repair allowances, and - Other costs as determined by the applicable Homeownership Center (HOC) • FHA also considers the payment of consumer debt by third parties as "inducement to purchase". When someone other than a family member has paid off debts or other expenses on behalf of the borrower: - The funds must be treated as an inducement to purchase, and - There must be a dollar for dollar reduction to the sales price when calculating the maximum insurable mortgage. NOTE: The dollar for dollar reduction to the sales price also applies to gift funds not meeting the requirements that the gift be for down payment assistance and provided by an acceptable source.
State Restrictions	Illinois 2-4 units, NJ and NY 3-4 units are subject to the following: • At least one full calendar year must have elapsed between the seller's acquisition of title and the execution of the sales contract (does not apply if the seller is a government agency, bank or bank subsidiary), **and** • The subject property must not currently be in foreclosure, **and** • The borrower and seller will be required to sign an affidavit stating that there is no relationship between them other than the transaction, **and** • Max DTI 45%, **and** • If LTV > 90% no gifts or grants permitted.

Subordinate Financing	• Eligible subject to the CLTV limits on the matrix located on page 1. • If existing subordinate financing is a HELOC, the full amount of the available credit must be used to determine the CLTV. • FHA has specific subordinate financing requirements. Subordinate financing is eligible from specific parties as follows: - Government agencies - Nonprofit organizations - Private individuals or other organizations - Family members • Documentation of all subordinate financing terms and loan instruments must be provided • Costs incurred for participating in a down payment assistance program may only be included in the amount of the second lien • The combined loan amount of the first and second lien cannot exceed 100% of the lesser of the appraised value or sales price plus normal closing costs, prepaids and discount points. • Maximum 96.50% if the subordinate financing is from a non-profit that is not considered an instrumentality of the government. • The combined loan amounts cannot exceed the borrower's reasonable ability to repay. Complete HUD guidelines regarding subordinate financing can be found in HUDs Handbook 4155.1 Chapter 5.C.1
Temporary Buydowns	Not allowed.
Transactions – Ineligible	• FHA Secure • Hope for Homeowners • MCC (Mortgage Credit Certificates) – Borrower can do an MCC after closing, but MCC cannot be used to qualify. • FHA Section 8 loans • FHA Energy Efficient Mortgage (EEM) • Second home and investment transactions • No test case loans
Transactions Types	**Purchase** • Mortgage amount is limited to 96.50% of the lesser of the sales price or appraised value. • **Rate/Term Refinance** • Maximum mortgage amount is limited to the lesser of 97.75% LTV or the existing debt. • The following can be added to the existing first mortgage amount: - Any purchase money second mortgage - Any junior liens over 12 months old - Closing costs, - Prepaids - Borrower-paid repairs required by the appraisal, and - Discount points. NOTE: If the balance or any portion of an equity line of credit in excess of $1000 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. • Cash back to the borrower cannot exceed $500.00

Transaction Types	Cash-out Refinance
	• Mortgage limited to a maximum of 85% LTV. The mortgage amount must be used to pay the current unpaid principal balance of the existing 1st lien and may also be used to pay closing costs, points, prepaids, subordinate mortgage liens and provide additional cash to the borrower. • No seasoning requirement on the subordinate lien(s) • Borrowers who are currently delinquent, in arrears or who have had mortgage delinquencies with the most recent 12 months are not eligible for cash-out transactions. • Mortgages with < 6 months' pay history or not eligible for cash out. The borrower must have made, at minimum, 6 mortgage payments, to be eligible for cash out. • Properties owned free and clear are eligible for cash-out. • Co-borrowers and co-signers cannot be added to the Note to meet underwriting guidelines. **$100 Down Payment (HUD REO Properties)** • Buyers must be approved by HUD for the $100.00 Down Payment Program. • The maximum LTV is 100%. The maximum loan amount is the lesser of the appraised "as-is" appraised value of the property or the loan amount, less the $100 down payment. If the UFMIP exceeds the appraised value, it cannot be financed and the borrower will be required to bring funds to close. Closing costs and pre-paids may **not** be financed. • An earnest money deposit is required from the borrower. The minimum earnest money deposit requirement established by HUD is $500 and the maximum is $2,000 depending on the property specific requirements. • Borrower must be provided HUD's For Your Protection: Get a Home Inspection (Form 92564-CN) no later than time of loan application. • If necessary, the appraiser will identify repairs that are required to bring the property up to FHA's minimum property requirements (MPR). Repair costs can be included in the loan amount calculation when a repair escrow is established. The maximum LTV with a repair escrow is 110%. The maximum repair cost is $5,000. Refer to the Escrow Holdbacks topic for details. • The appraisal is provided by HUD via the Asset Manager; an appraisal should **not** be ordered from an AMC. If the REO appraisal expires (older than 120 days) then a new appraisal must be obtained and the borrower may be charged for it. • The utilities should be on at the time of the appraisal unless documented extenuating circumstances were noted by the appraiser. • Refer to HUD Mortgage Letter 2011-19 Financing of Transaction Costs for REO Purchased under FHA $100 Down Sales Incentive issued April 28, 2011 • HUD REO properties can be located by searching www.hudhomestore.com. • HUD's policy on establishing the market value for an REO policy is that the price should reflect the appropriate price for a property sold in a competitive and open market and comparables should be based on arm's length transactions. Additionally, properties sold at market value are characterized by the following: The buyer and seller are typically motivated, - Both parties are knowledgeable and are acting in their own best interest - The property was on the open market for a reasonable time, - Payment is made in cash or a mortgage loan, - The price represents the normal consideration for the property being sold and is not affected by special/creative financing or sales concessions granted by anyone associated with the transactions. Refer to the Appraisals topic for specific guidance on HUD REO appraisal requirements.