FHA Lending
Established in the 1930's

One of the most successful federal programs

FHA is really an insurance agency within HUD

Loans are insured by Federal Government

Lower risk to Lenders

FHA does not lend any money to borrowers or lenders
FHA is credited with innovating the 30 year fixed rate loan.

FHA insures mortgages on the following properties:
- Detached or semi-detached dwellings
- Including condominiums
- Single family programs are limited to owner occupied residences only
The Good

Why we still do HUD loans

- Automated Underwriting
- Flexible credit standards
- Qualifying Ratios – 31% / 43%
- Programs
  - Fixed Rate – 15yr, 20yr, & 30yr
  - Arms – 1yr T-Bill & 3/1 Hybrid Arm (not offered by ASB)
  - Graduated Payment
  - Temporary Buydown
  - 2-1 Buydowns
  - Streamline Refinances
The Good

- No minimum Credit Score
- Direct Endorsement Underwriters
- Cash-out refinances allowed to 95% CLTV
- Repeat business refinances
- Non-Occupant Co-borrowers are allowed
- Borrower paid non-reoccurring closing cost can be included in the down payment
- Mortgage Insurance can be financed
- Sellers Concession - 6% of sales price
- Down payment can consist of a gift or DAP source
The Good

- Debt with ten months or less are not counted in ratios
- Docs may be drawn in the name of the correspondent or the lender
- A portion of the UFMIP is refunded if loan is paid off
- Some condos are eligible for “spot” condo approval
- No cash-out refi’s – LTV’s up to approx. 97%
- An FHA loan is assumable by a qualified lender
- There are no sales price or income limits
- There are no reserve requirements
The Good

- Non-Taxable income may be grossed up
- A tri-merge credit report is acceptable
- Newlyweds can use funds from bridal registry
- Assignment / Forbearance relief
- Federal tax lien may remain unpaid
- Excellent resources
  - Forms – [www.hudclips.org/cgi/index.cgi](http://www.hudclips.org/cgi/index.cgi)
The Bad

Why FHA loans have given many loan officers / underwriters gray hair

- Increased Documentation
- CAIVR system
- Community Property States (CA, WI, TX, etc..) require a Social Security number and credit report for non-borrowing spouse
- Borrower is eligible for one high ratio HUD loan at a time
- Maximum loan amounts limit availability in some markets
- Appraisers are required to pass a test
- LDP and GSA lists must be checked
The Bad

- FHA scorecard to be used as a guideline only
- Manual downgrades from Approve or Accept include:
  - Unacceptable CAIVRs
    - C = Claim Filed
    - D = Delinquent
    - F = Foreclosure
  - Delinquent Federal Debt
  - Credit, if AUS system cannot see liens on title, bankruptcy, or foreclosure
The Ugly

The things that keep the MBA lobbyist busy

- Additional FHA documents may be confusing
- Appraisal process requires a “case” number
- Correspondents are subject to FHA regulations, which require HUD approval
- Correspondents must submit to and pay for an annual financial audit
- Correspondents must maintain a minimum net worth of $63,000
- Correspondents have limited origination jurisdiction
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- Verifications
  - 120 Days of loan closing
  - 180 for new construction
  - 90 days at the time of underwriting

- Employment
  - 2 full years, gaps must be explained
  - Alternative documents are acceptable
  - Paystubs covering the most recent 30-day period
  - Last 2 years W-2’s
  - IRS 4506
  - Verbal Verification of Employment
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **Closing and down payment funds**
  - Funds must be verified
  - Alternative documents are acceptable
  - Original or certified copies of bank statements covering most recent 3 month period

- **Cash saved at home maybe used**
  - Cash must be verified in bank or title/escrow
  - Budget Letter

- **Three repository merged credit (TRMCR) is acceptable**
  - All inquiries within the past 90 days must be addressed
  - All derogatory credit must be addressed
  - Letter of explanation for all collections, judgments, including medical
  - Judgments must be paid; collections are underwriters discretion
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **Non-traditional Credit**
  - Acceptable for borrowers without credit
  - Cannot be used to offset derogatory items on traditional credit.
  - Underwriter must have good compensating factors to approve
  - Reserves and additional down payment would be a good factor
  - When AUS refer is received, it must be addressed by Underwriter on the MCAW

- **Credit Obligations**
  - Long Terms obligations that extend 10 months+ are included in the debt-to-income ratios
  - A debt less than 10 months may be considered if ratios are tight (31%/43%) and the payment is high
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **Bankruptcy** – Must be documented
  - Must be released for a minimum of 2 years, never less than 1 year
  - Must have re-established new credit
  - Must have a good documented reason for bankruptcy (illness, or death of primary wage earner)
- **Chapter 13 – bankruptcy**
  - If one year of pay-out period has elapsed, must provide evidence that payments are made in time.
  - Courts approval to enter into a mortgage is required
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **Gift Funds**
  - All gift funds to be deposited, verified, and the original gift letter to be in file.
  - Must be signed by Donor and Borrower
  - All DAP sources used must be on the ASB approved list
  - ASB includes DAP gift in seller concession total when seller donation is required

- **Appraisal**
  - Valid for six (6) months
  - Cannot not be subsequently re-used
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **CAIVR**
  - Credit Alert Interactive Voice Response
  - Clearance must be obtained through FHA

- **Social Security**
  - Validation is required
  - Verify **all** social security numbers on credit report
  - 3rd party verification sources – Fraudguard, C&S, and Rapid Reporting
  - Verify against paystubs, W-2s, etc..
The Credit Package

Underwriting Hints, Notes, Warnings & Surprises

- **Permanent Resident Aliens**
  - Required to have a valid Social Security Number
  - Must be able to provide evidence of lawful residency
  - Residency must be provided by the BCIS (Bureau of Citizenship and Immigration), formerly the INS

- **Non Permanent Resident Aliens**
  - Required to have a valid Social Security Number documenting the borrower is eligible to work
  - Residency must be evidenced by an Employment Authorization Document (EAD) issued by the BCIS
  - Social Security Card is **not** to be used as evidence of work status
The Fees

- FHA previously regulated fees that may be charged. FHA amended their stance per Mortgagee Letter 2006-04

  - **Origination Fee**
    - 1% of the base loan amount (the loan amount before the financed up-front MIP is added)
    - 1% is the maximum percent that may be charged

- **Discount Points**
  - Based on the total loan amount including UFMIP
  - Fee represents the cost to buy-down the note rate
  - Buyer or seller may pay discount points
  - FHA does not consider the discount points to a non-recurring closing cost so it cannot be used to satisfy down payment requirements
The Fees

- UFMIP (Up-Front Mortgage Insurance Premium)
  - One time mortgage insurance payment, which may be financed. 1.5% on all mortgages

- Annual MIP
  - Monthly payment to the lender for mortgage insurance
  - .5% of loan amount for 30yr loans or .25% for 15yr
  - The term of the MIP varies, depending on the amount of down payment

- Allowable Closing Cost
  - Non-Recurring - Borrower paid non-recurring closing cost may be used to satisfy part of the down payment requirements. May be paid by borrower, seller or broker
  - Prepaids – can be financed on a refi. May be paid by borrower, seller or correspondent. Ex. Tax Impounds, Insurance Impounds, Insurance Premium, Prepaid Interest
The Fees

- **Non-Allowable Closing Cost**
  - Tax Service Fee

- **Sales Concession/Financing Concessions**
  - Examples of sales concessions (seller or interested 3rd party payment) – subtracted dollar-for-dollar from sales price:
    - Condo or HOA Fees
    - Decorating allowances
    - Moving Expenses
    - Personal Property
    - Excess rent credit

- **Premium (Rebate) Pricing**
  - Pricing may be used to pay normal closing costs and prepaid expenses
  - May not be used to fund mortgage payments (or the interest) or any portion of the down payment.
FHA Appraisals are now quite similar to conventional appraisals for existing properties

Correspondents may choose their own appraiser, as long as the appraiser has completed FHA Training.

The major difference is that the appraiser is selected at the time as the “case” number is assigned via FHA connection.

Ordering an appraisal:
1. Processor orders the Case Number
2. Processor selects FHA approved appraiser from roster
3. Processor contacts appraiser to complete appraisal. Standard FNMA/FHLMC appraisal forms are used
4. DE Underwriter endorses value by completing the conditional commitment
The Appraisal

Repairs
- FHA has shifted from emphasis on the repair of minor property deficiencies.
- They now require repairs of property conditions that rise above the level of cosmetic defects, minor defects or normal wear and tear.
- Repairs are limited to any requirements to protect health and safety of occupants:
  - Protect the security of the property
  - Correct physical deficiencies affecting structural integrity

New Construction
- Require additional information from builder
- 1 yr warranty, permits, and occupancy certificate
- Lower LTV may be required if exhibits can’t be obtained
The Appraisal

**Property Flips**
- Must verify seller is the owner of record
- Sellers date of acquisition equals date of settlement on seller’s purchase of property. Resale date is date of execution of the sales contract by the buyer.
- 90 days or less after sellers acquisition of property, the property is not eligible for HUD insured mortgage
- 91-180 days after, lender is required to obtain a second appraisal if resale price is 100% or more than price paid. Rehab cost may be documented but second appraisal is still required.
- 181-12months after, FHA reserves the right to additional docs if resale price is 5% or greater than the lowest sales price of the property over the preceding 12 months. May include a 2\textsuperscript{nd} appraisal.
The Appraisal

- Exceptions to the 90 day restriction
  - HUD REO Properties
  - Local and state government properties
  - State and federally charted financial institution properties
  - United States Government agency properties
  - Properties acquired thru inheritance
  - Properties acquired by an employer or relocation agency in connection with relocation of an employee
  - Non-Profits approved to purchase HUD-owned single family properties at a discount with resale restrictions
  - When a builder is selling a newly built home or building a home for a buyer using FHA insured financing
- Appraiser must indicate all prior sales of subject property within the previous three (3) years
The Mortgage Credit Analysis Worksheet (form HUD 9-2900WS/PUR) is the primary source for calculating the maximum mortgage amount.

The following rules need to be kept in mind:

- **Base Loan Amount** is calculated loan amount with out financed UFMIP
- Published maximum loan amounts refer to **base loan amount** only
- Qualifying ratios are calculated on the total loan amount
- Total loan amount is the base loan amount plus financed UFMIP

Remember the following rules when calculating the maximum insurable loan amount:

- All calculations of the base loan amount are limited by the maximums published by HUD, which may change at various times.
- FHA allowable closing costs paid by the borrower may be used to satisfy the 3% down payment requirement
- Homes less than one year old or under construction without HUD inspections are limited to 90% LTV
- All refinances (including cash out) paying off an FHA loan are subject to MIP refund calculations, and refinance netting authorization must be obtained for all FHA refinances.
Loan Amount Calculations

Maximum Base Loan Amount Calculations

**Purchase**

- Sales price or value (whichever is less) \( \times \) FHA’s closing costs factor determined by the state and sales price.

- Low closing costs states: AZ, CA, CO, Guam, ID, IL, IN, NM, NV, OR, UT, VI, WA, WI, WY
  - 98.75% if sales price or value is <$50,000
  - 97.65% if sales price or value is >$50,000 but <$125,000
  - 97.15% if sales price or value is >$125,000

- High closing cost states: AL, AK, AR, CT, DC, DE, FL, GA, HI, IA, KS, KY, LA, MA, MD, ME, MI, MO, MN, MS, MT, NC, ND, NE, NH, NJ, NY, OH, OK, PA, PR, RI, SC, SD, TN, TX, VA, VT, WV
  - 98.75% if sales price or value is <$50,000
  - 97.75% if sales price or value is >$50,000
Loan Amount Calculations

**Maximum Base Loan Amount for the area must meet two tests:**

- Maximum Base Loan Amount must be less than or equal maximum loan amount for the area (see charts)
- Maximum Base Loan Amount must provide borrower a cash investment of at least 3% of sales price or value. “Cash investment” includes buyer paid closing costs.

Remember to add UFMIP to the base loan amount!
# Loan Amount Calculations

## Upfront and Annual MIP Premium Chart – Greater 15 yrs

**Annual**

<table>
<thead>
<tr>
<th>Upfront</th>
<th>LTV Ratio</th>
<th>Premium</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.50</td>
<td>All LTV’s</td>
<td>.50</td>
<td>Years will be determined when loan balance equals 78% provided borrower has paid premium for at least 5 years</td>
</tr>
</tbody>
</table>

- Value from the original loan in FHA Connection or from the Refinance Netting Authorization
- Mortgages with a term more than 15 years the annual MIP will be canceled when LTV reaches 78%, provided borrower has paid the annual fee for at least 5 years
Loan Amount Calculations

Upfront and Annual MIP Premium Chart – 15 yrs or less

Annual

<table>
<thead>
<tr>
<th>Upfront</th>
<th>LTV Ratio</th>
<th>Premium</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.50</td>
<td>89.99 &amp; Under</td>
<td>None</td>
<td>N/A</td>
</tr>
<tr>
<td>1.50</td>
<td>90.00 &gt; Greater</td>
<td>.25</td>
<td>**</td>
</tr>
</tbody>
</table>

- 90% & greater, the annual MIP would be canceled when LTV reaches 78% irregardless of the time the borrower has paid annual MIP.
Loan Amount Calculations

- On ALL FHA Transactions, the *lowest* calculation is always the maximum base loan amount.

**Cash Out Refinance**

- Limited to the Maximum Base Loan Amount for the area (see charts)

- The Maximum Base Loan Amount on a cash out Refinance is the sum of the property’s appraised value $\times$ 95% for certain transactions (1-2 dwellings, properties owned at least 12 months, no late payments reported during previous 12 months) or 85%

- Owner Occupancy required
Loan Amount Calculations

- On ALL FHA Transactions, the lowest calculation is always the maximum base loan amount.

No Cash Back Refinance
- Maximum base Loan Amount for the area (see charts)
- 97.75% of the appraised value (98.75% if appraisal if < $50,000)
- Total payoff of existing first lien and any subordinate liens over one year old (Heloc’s = no more than $1,000 drawn in the past 12 months, plus allowable closing costs and reasonable discount points, prepaids, minus MIP refund, if applicable)
- Remember – the max base loan is the lowest of the three calculations. Now add UFMIP! Refi worksheets from HUD’s website detail how to calculate the loan amount
  - Owner – Occupancy
  - No cash proceeds allowed
  - Borrower must have owned property for past 12 months or lesser of sales price or value is used to calculate LTV
Streamline Refinance

The Pledge

The sole purpose of an FHA Streamline refinance is to reduce the monthly P&I payment of an existing HUD insured mortgage

It may be completed with or without an appraisal

Underwriting

- No credit underwriting is required by HUD unless the principal balance is increasing, or the payment is increasing by more than 20%. Mortgage history evidencing timely payments is required.

Subordinate Financing

- Subordinate financing may remain in place without regard to the indebtedness against the property. Must be subordinated to the new HUD insured mortgage
Streamline Refinance

**Vesting**
- New individuals may be added to title on a streamline refinance without credit worthiness review.
- If deleting a borrower on the note, the remaining borrower(s) must provide evidence they have made mortgage payments themselves in the past six months.
- If ownership of the property will change the borrowers will have to qualify for the payments

**Credit-Qualifying Streamlines**
- Contain all of the normal features of a streamline refinance.
- Evidence must be provided that remaining borrowers have an acceptable credit history and ability to make the payments
- Verification of income, credit report, computation of acceptable mortgage payment and obligation-to-income ratios must be provided
<table>
<thead>
<tr>
<th>Section of the Act</th>
<th>Description</th>
<th>Section of the Act ADP code</th>
<th>Section of the Act ADP Code for VA-CRV Cases</th>
<th>Section of the Act ADP Code for Direct Endorsement</th>
</tr>
</thead>
<tbody>
<tr>
<td>203 (b)</td>
<td>Mutual Mortgage</td>
<td>203</td>
<td>503</td>
<td>703</td>
</tr>
<tr>
<td>203 (b)</td>
<td>Adjustable Rate Mortgage (ARM)</td>
<td>229</td>
<td>529</td>
<td>729</td>
</tr>
<tr>
<td>203 (b)/245 (a)</td>
<td>Graduated Payment Mortgage (GPM)</td>
<td>270</td>
<td>570</td>
<td>770</td>
</tr>
<tr>
<td>234 (c)</td>
<td>Condominium</td>
<td>234</td>
<td>534</td>
<td>734</td>
</tr>
<tr>
<td>234 (c)</td>
<td>Adjustable Rate Mortgage (ARM)</td>
<td>231</td>
<td>531</td>
<td>731</td>
</tr>
<tr>
<td>234 (c)/244 (a)</td>
<td>Graduated Payment Mortgage (GPM)</td>
<td>271</td>
<td>571</td>
<td>771</td>
</tr>
<tr>
<td>203 (k)</td>
<td>Improvements/First Lien</td>
<td>202</td>
<td>-</td>
<td>702</td>
</tr>
<tr>
<td>203 (k)</td>
<td>Adjustable Rate Mortgage (ARM)</td>
<td>230</td>
<td>-</td>
<td>730</td>
</tr>
<tr>
<td>203 (k)</td>
<td>203 (k) Escrow Commitment</td>
<td>207</td>
<td>-</td>
<td>707</td>
</tr>
<tr>
<td>203 (k)</td>
<td>203 (k) Energy Efficient Mortgage (EEM)</td>
<td>207</td>
<td>507</td>
<td>807</td>
</tr>
</tbody>
</table>
Helpful Websites

HUD Web Sites:
Maximum Mortgage Worksheets for calculating refinesances on FHA loans:

FHA Connection:
- [https://entp.hud.gov/clas](https://entp.hud.gov/clas)

FHA Maximum Mortgage Amounts by County:

FHA Mortgagee Letters:
- [http://www.hud.gov/offices/hsg/mltrmenu.cfm](http://www.hud.gov/offices/hsg/mltrmenu.cfm)

Washington DC Reference Guide:
- [http://www.hud.gov/offices/hsg/sfh/ref/chap1.cfm](http://www.hud.gov/offices/hsg/sfh/ref/chap1.cfm)
- [http://www.hud.gov/offices/hsg/sfh/ref/chap2.cfm](http://www.hud.gov/offices/hsg/sfh/ref/chap2.cfm)

HUD Clips- To view HUD Handbooks and mortgagee letters:
- [http://www.hudclips.org/cgi/index.cgi](http://www.hudclips.org/cgi/index.cgi)

HUD Training Opportunities:
- [http://www.hud.gov/offices/hsg/sfh/events/events.cfm](http://www.hud.gov/offices/hsg/sfh/events/events.cfm)

HUD’s Web Site for Lenders:
- [http://www.hud.gov/groups/lenders.cfm](http://www.hud.gov/groups/lenders.cfm)