IMPAC Mortgage Corp. WHOLESALE

FHA Purchase

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

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

Program Qualifications

- Impac's FHA Purchase program is designed for the purchase of owner occupied single family residences using an FHA insured home loan.

Eligibility Matrix Loan Amount & LTV Limitations

FHA - Primary Residence Purchase

Minimum Credit Score	Units	Maximum LTV	Total LTV	Maximum CLTV[3]
Primary Residence Purchase				
580	1-4	96.5%[4]	Maximum LTV plus the amount of the financed UFMIP	Certain criteria apply[1]
Non Arm's Length (Identity of Interest) Transactions				
580	1-4	85%	Maximum LTV plus the amount of the financed UFMIP	85%

Footnotes:

1. See *Secondary Financing*
2. See *Financing Types*
3. CLTV limitations vary depending upon source of secondary financing. See *Secondary Financing*.
4. Section 203(h) allows 100% financing (100% LTV) with no down payment required. See *203(h) Disaster Victims Program*.

Maximum Loan Amount

Continental US	Conforming		High Balance	
Units	**Lowest Maximum (floor)**	**Highest Maximum (ceiling)**	**Lowest Maximum (floor)**	**Highest Maximum (ceiling)**
1	$314,827	$484,350	$484,351	$726,525
2	$403,125	$620,200	$620,201	$930,300
3	$487,250	$749,650	$749,651	$1,124,475
4	$605,525	$931,600	$931,601	$1,397,400

Unless otherwise stated, restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP) (Base Loan Amount). The total mortgage amount may be increased by the financed UFMIP amount.

Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the floor or greater than the ceiling as outlined in the matrix above.
See this link for FHA County Mortgage Limits: https://entp.hud.gov/idapp/html/hicostlook.cfm

The lowest minimum "floor" loan amounts for the FHA High Balance products are based on the Base Loan amount and not the Total Loan Amount that includes financed Up-Front Mortgage Insurance (UFMIP).

For purchase transactions using Section 203b and 234c (condominium units), the Maximum Base Loan Amount is calculated as the lesser of:

- Sales price or appraised value
- Minus any adjustments for excessive seller contributions/inducements to purchase
- Multiplied by the appropriate LTV factor, see *Eligibility Matrix Loan Amount & LTV Limitations*

For purchase transactions not permitting maximum financing (e.g., identity of interest, non-occupant co-borrower), the maximum Base Loan Amount is calculated as the lesser of:

- Sales price or appraised value
- Multiplied by the appropriate LTV factor, see *Co-Borrower/Co-signer* section

Product Description

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

Product Codes

Fixed	Product Code	
15 Years	FF15	FHA FRM 15 year
15 Years	FF15HV	FHA FRM 15 year 203(h) Disaster Victims Program
15 Years	FF15HB	FHA FRM 15 year High Balance
15 Years	FF15HVHB	FHA FRM 15 year 203(h) Disaster Victims Program High Balance
30 Years	FF30	FHA FRM 30 year
30 Years	FF30HV	FHA FRM 30 year 203(h) Disaster Victims Program
30 Years	FF30HB	FHA FRM 30 year High Balance
30 Years	FF30HVHB	FHA FRM 30 year 203(h) Disaster Victims Program High Balance
30 Years	FF30HD	FHA FRM 30 year $100 Down
Hybrid ARM		
3/1 ARM	FA31	FHA 3/1 ARM
3/1 ARM	FA31HV	FHA 3/1 ARM 203(h) Disaster Victims Program
3/1 ARM	FA31HB	FHA 3/1 ARM High Balance
3/1 ARM	FA31HVHB	FHA 3/1 ARM 203(h) Disaster Victims Program High Balance
5/1 ARM	FA51	FHA 5/1 ARM
5/1 ARM	FA51HV	FHA 5/1 ARM 203(h) Disaster Victims Program
5/1 ARM	FA51HB	FHA 5/1 ARM High Balance
5/1 ARM	FA51HVHB	FHA 5/1 ARM 203(h) Disaster Victims Program High Balance

Eligibility Requirements

203(h) Disaster Victims Program	203(h) works in conjunction with the HUD 203(b) program. The primary difference is the cash investment. 203(h) allows for 100% financing. The program covers displaced owners or displaced renters in federally (Presidential) declared disaster areas. Original home **must** have been located in an area that has been designated by the President as a federally declared disaster area (http://www.fema.gov/disasters). A copy of the applicable declaration indicating individual assistance **must** accompany the file. Home **must** have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. (You cannot use the 203(h) program to rehabilitate a home.) Home may be rebuilt on existing property or a new home residence may be purchased anywhere. Borrower (can be a prior owner or renter): • Prior permanent residence documentation includes valid driver's license, voter registration card, or utility bills. **Must** have been permanent resident of a destroyed or substantially damaged residence in the Presidentially-declared major disaster area. • Damage documentation includes an insurance report, an inspection report by an independent fee inspector or government agency, or conclusive photographs showing the destruction or damage. Borrower **must** apply (1003 application submitted to lender) for 203(h) disaster program within one year of the Major Disaster Declaration by the President. Properties eligible to be purchased with 203(h): • One-unit detached homes (Two-, three-, and four-unit properties may not be purchased under this program) • One-unit detached home in a PUD • Units in FHA approved condominium projects • Property **must** meet HUD's Minimum Property Standards and Minimum Property Requirements. Ineligible properties with 203(h): 2-4 unit properties Co-ops Attached PUDs Second Homes Investment Property Maximum Mortgage – subject to statutory loan limits (county loan limits for base loan amount apply) The total LTV may exceed 100% by the amount of the financed Up Front Mortgage Insurance Premium (UFMIP). Down Payment, Closing Costs, Prepaid Expenses • No down payment is required

	• Closing costs and prepaid expenses **must** paid by borrower in cash or lender premium pricing. Closing costs and prepaid expenses may not be financed with a 203(h) loan. o Seller may contribute to closing costs and prepaid expenses up to 6% of sales price Borrower **must** meet all other requirements for FHA qualification. 203(h) is run through TOTAL scorecard. An "approve/ineligible" is acceptable if the ineligibility is for loan amount/LTV and calculations are made in accordance with 203(h) program. A "refer" loan may be manually underwritten per FHA guidelines. Borrowers with existing mortgages on substantially damaged or destroyed property within the disaster area **must** show those mortgages are paid off. Borrower is qualified with all debt as with normal FHA mortgage. Borrower may relocate anywhere. Borrower does not have to purchase within the same area. Borrower **must** qualify with income and employment per FHA guidelines regardless of the location of the new property. See HUD Handbook 4000.1 for certain credit and documentation flexibilities and underwriting guidance.
$100 Down Payment on HUD REO Properties **(HOC determines availability)**	To see current HUD Sales Incentives, click on "Current Sales Incentives" under the subheading "Resources" in the lower left hand corner of the HUD Home Store web page at: http://www.hudhomestore.com This will indicate the regions where HUD is offering $100 down payment for HUD REO properties. Note: The maximum total loan amount <u>including UFMIP</u> is no longer limited to 100% of the as-is appraised value. The maximum mortgage amount is based on the adjusted value. The UFMIP may be financed with no restriction. See Program Codes for the appropriate program code when using the $100 Down Payment program. Minimum Score required is **580.** **Approve/Ineligible for $100 Down Payment Program – TOTAL AUS findings of Approve/Ineligible or Accept/Ineligible are allowed so long as the ineligibility is due to down payment AND the underwriter confirms that down payment, loan amount, and UFMIP are acceptable per FHA guidelines.**
Adjustable Rate Details	(see tables below)

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

*see <u>rate sheet</u> to confirm current information, subject to change

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

Appraisal Requirements

<u>Appraisal Validity</u>

<u>Initial Appraisal Validity</u>

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

<u>Initial Appraisal Validity 30-Day Extension</u>

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

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

Appraisal Update

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

Appraisal Integrity

- The appraisal report **must** list FHA as an Intended User of the appraisal

Case Numbers

- FHA case number is **assigned to the property**, not to the borrower.
- The original mortgagee **must** assign the case number to the new mortgagee **immediately** upon the borrower's request
  - The original mortgagee may provide processing documents but is not required to do so.

Transferring Existing Appraisals

- The mortgagee, at the borrower's request, **must** transfer the appraisal to the second mortgagee within 5 business days.
- The original mortgagee may not charge the borrower a fee for the transfer of any documents.
- A fee may be negotiated between the original mortgagee and the new mortgagee. However, a fee for the transfer of documents for Streamline Refinance transactions is not permitted.

Transferring Existing Appraisal – New Borrower

- When an existing appraisal is being used for a different borrower, the mortgagee **must**:
  - Enter the new borrower's information in FHA Connection
  - Collect the appraisal fee from the new borrower and refund the fee to the original borrower
  - Have the appraiser review the purchase contract and revise the appraisal report for value adjustments accordingly.

Communications with third parties

- Mortgagees may not discuss the contents of the appraisal with anyone other than the borrow. This includes real estate agents.

Mixed Use

- A minimum of 51% of the entire building square footage **must** be residential use

Shared Wells

- Shared wells are allowed only when the lender evidences the connection to public or community water system is not feasible and the property is not located in an area where local officials have determined public connection to be feasible.

For 2-4 unit properties - appraiser to use FNMA 1025 Small Residential Income Property Appraisal Report Form

Appraisal **must** comply with the FHA Appraisal Independence Policy

HUD REO (see the table below for FHA/HUD policy changes regarding HUD REO purchases) (ML2015-17)
New HUD policy eliminates the use of the list price of the HUD REO property in determining the maximum mortgage.

Summary of Insured REO Sales Policy Changes		
Policy	**Existing Requirements**	**Revised Requirements**
REO Appraisal	▪ Used to establish REO list price *and* ▪ Used to calculate maximum mortgage amount	Used to establish list price only
Ordering a new appraisal	Permitted only when ▪ REO appraisal not available *or* ▪ REO appraisal expired *or* ▪ REO appraisal has material deficiencies	Required for all FHA-insured REO sales transactions
Responsibility for determination of compliance of property with Minimum Property Requirements	▪ REO Asset Manager *and* underwriting mortgagee	Underwriting mortgagee only

Maximum mortgage amount	Based on lesser of ▪ Appraised value *or* ▪ Sales price *or* ▪ Original REO list price	Based on adjusted value
Financing Upfront Mortgage Insurance Premium on $100 Down loans	Only if total loan amount does not exceed appraised value	Upfront Mortgage Insurance Premium may be financed with no restriction

A Compliance Certification is required for follow-up repairs or completion of items on any new construction loan.

Second Appraisal:
The second appraisal requirements are as follows.

- An FHA roster appraiser **must** perform the appraisal in compliance with all FHA appraisal reporting requirements (i.e. an FHA appraisal)
- The lender may not use an appraisal completed for a conventional loan even if it was completed by an FHA roster appraiser
- The lender may not charge the cost of the second appraisal to the homebuyer

The lender **must** not use this appraisal for case processing and **must** not enter it into FHA Connection

Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Appraiser Requirements

Appraisers **must** be on FHA's approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential

The assigned appraiser **must** perform the physical inspection of the property. He/she may not sign the appraisal performed by another appraiser

Information Required before Commencement of Appraisal
The Appraiser **must** obtain all of the following from the Mortgagee before beginning an appraisal:

- a complete copy of the executed sales contract for the subject, if a purchase transaction;
- the land lease, if applicable;
- surveys or legal descriptions, if available;
- any other legal documents contained in the loan file; and
- a point of contact and contact information for the Mortgagee so that the Appraiser can communicate any noncompliance issues.

Appraiser **must** comply with the FHA Appraisal Independence Policy

Assets

Borrower Investment
Purchase Transactions - Sections 203b and 234c

- Minimum down payment is 3.5% of the sale price or appraised value, whichever is less
- The 3.5% cannot be met by borrower-paid closing costs, prepaid expenses, commitment fees or discount points or premium pricing

Premium Pricing

- Prepaid expenses and/or closing costs may be paid with premium pricing (subject to compensation rules).

Closing costs, prepaid items and other fees may not be applied towards the borrower's Minimum Required Investment (MRI).

Real Estate Tax Credits
Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the Minimum Required Investment (MRI), if the mortgagee documents that the borrower had sufficient assets to meet the MRI and the borrower paid closing costs at the time of underwriting. This permits the borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

Employer Assistance
A salary advance cannot be used for funds to close. If a borrower is receiving employer assistance, a salary advancement cannot be considered as cash to close.

Interested Party Contributions (IPCs) / Seller Contributions
Interested Parties may contribute up to **6 percent of the sales price** toward the borrower's origination fees, other closing costs and discount points, and payment of the UFMIP. IPCs that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. IPCs exceeding 6 percent are considered an inducement to purchase. IPCs may not be used for the borrower's MRI. Payment of real estate commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an IPC.

New Accounts / Large Deposits
For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the mortgagee **must** obtain documentation of the deposits. The mortgagee **must** also verify that no debts were incurred to obtain part, or all, of the MRI.

Earnest Money Deposit
The mortgagee **must** verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the borrower's history of accumulating savings, by obtaining:

- A copy of the borrower's cancelled check;
- Certification from the deposit-holder acknowledging receipt of funds; or
- A Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, regardless of the amount, the mortgagee **must** verify that the gift is in compliance with FHA rules and document accordingly. .

Joint Accounts
If the borrower does not hold the deposit account solely, all non-borrower parties on the account **must** provide a written statement that the borrower has full access and use of the funds.

Real Estate Commission from Sale of a Subject Property
Real estate commission from the sale of subject property refers to the borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the property being purchased. Mortgagees may consider real estate commission from the sale of subject property as part of the borrower's acceptable source of funds if the borrower is a licensed real estate agent. A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements.

- The mortgagee **must** verify and document that the borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a real estate commission from sale of subject property being purchased.

Business Funds

- If business funds are used for down payment, closing costs and/or reserves, the borrower **must** be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
- The impact of the withdrawal **must** be considered in the analysis of the business based on the personal and/or business tax returns. Underwriter **must** complete a cash flow analysis of the business. The analysis **must** indicate that withdrawal of funds will not have a detrimental effect on the borrower's business. A CPA letter will not suffice.

Sale of Personal Property
Documentation **must** be obtained evidencing:

- Proof of ownership
- Third party verification of the value of the asset
- Evidence of sale/bill of sale of the asset
- Proof of receipt of funds

Gifts

- Eligible to use toward all down payment, closing costs and prepaids
- Impac approved Down Payment Assistance programs are eligible

Gifts (Personal and Equity)
Gifts refer to the contributions of cash or equity with no expectation of repayment.

- Acceptable Sources of Gift Funds
  - The borrower's Family Member (see *Identity of Interest Transactions* for Family Member definition)
  - The borrower's employer or labor union
  - A close friend with a clearly defined and documented interest in the borrower
  - A charitable organization
  - A governmental agency or public entity that has a program providing homeownership assistance to:
    - Low or moderate income families; or
    - First-time homebuyers

  Any gift of the borrower's MRI may not come from the seller, or any other person or entity who financially benefits from the transaction (directly or indirectly), or anyone who is or will be reimbursed, directly or indirectly, by any of the foregoing parties.
- Cash on Hand is not an acceptable source of donor gift funds
- Acceptable Sources of Gifts of Equity

	○ Only Family Members may provide equity credit as a gift on property being sold to other Family Members. • Documentation – The mortgagee **must** obtain a gift letter signed and dated by the donor and borrower that includes the following: ○ The donor's name, address, and telephone number; ○ The donor's relationship to the borrower ○ The dollar amount of the gift; and ○ A statement that no repayment is required **Documenting the Transfer of Gifts** The mortgagee **must** verify and document the transfer of gift funds from the donor to the borrower in accordance with the requirements below • If the gift funds have been verified in the borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account. • If the gift funds are not verified in the borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, **and** a bank statement showing the withdrawal from the donor's account. If the gift funds are paid directly to the settlement agent, the mortgagee **must** verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source. If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the mortgagee **must** have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction. The mortgagee and its affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public. Regardless of when gift funds are made available to a borrower, the mortgagee **must** be able to make a reasonable determination that the gift funds were not provided by an unacceptable source. **Reserves** Reserves refer to the sum of the borrower's verified and documented liquid assets minus the total funds the borrower is required to pay at closing. Reserves do **not** include: • The amount of cash taken at settlement in cash-out transactions; • Incidental cash received at settlement in other loan transactions; • Gift funds (not allowed for reserves, Manual only) ○ Note: Excess gift funds may be counted as reserves when using TOTAL approval only; • Equity in another property; or • Borrowed funds from any source Reserves for 1-2 Unit Properties (Manual) – 1 month's PITI after closing Reserves for 1-2 Unit Properties (TOTAL) - None Reserves for 3-4 Unit Properties (Manual and TOTAL) – 3 months' PITI after closing **Net Proceeds from Sale of Real Property** Net proceeds from the sale of real property may be used as an acceptable source of funds. The mortgagee **must** verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or similar legal document. The mortgagee **must** also verify and document that the transaction was arms-length, and that the borrower is entitled to the net sale proceeds. **Liquid Assets for Cash to Close and Reserves** Retirement Accounts (TOTAL) • Mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties. • The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as reserves. • If any portion of the asset is required for funds to close, evidence of liquidation is required. Cryptocurrencies (e.g. Bitcoin, Ethereum) are not allowed as eligible assets for any portion of a mortgage transaction including down payment, closing costs, or reserves.
Assumptions	Permitted – Credit worthy borrowers only
Borrower	U.S. citizenship is not required

Eligibility	▪ Mortgagee **<u>must</u>** determine the U.S. residency status of the borrower based on information provided on the mortgage application and other application documentation
	▪ **In no case is a Social Security card sufficient to prove immigration or work status**
	
	Eligible
	All Borrowers, including permanent resident aliens **<u>must</u>** have a valid social security number. Validate the social security number using any one of the following.
	• Social Security Card
	• Pay stub
	• W-2
	• Tax Transcripts
	• Validation from SSA
	
	<u>Permanent Resident Aliens</u>
	• Same eligibility requirements as US Citizens
	• Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS), formerly the INS.
	• Copy of the Alien Registration Receipt Card (Resident Alien card), I-551
	
	<u>Non-Permanent Resident Aliens</u>
	• Property will be borrower's principal residence
	• Borrower has a valid SSN
	• Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS
	• Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens
	
	<u>Inter Vivos Revocable Trust</u>
	The mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided:
	▪ The beneficiary of the living trust is a cosigner
	▪ The beneficiary will occupy the property as their principal residence
	▪ The trust provides reasonable means to assure that the mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property
	▪ The mortgagee **<u>must</u>** obtain a copy of the trust documentation
	▪ Power of Attorney (POA) is not allowed on inter vivos trusts (Impac overlay)
	
	<u>Family Member</u> is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:
	• Chile, parent, or grandparent
	    o A child is defined as a son, stepson, daughter, or stepdaughter
	    o A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent
	• Spouse or domestic partner
	• Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption
	• Foster child
	• Brother, stepbrother
	• Sister, stepsister
	• Uncle
	• Aunt
	• Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower
	Note: "Cousins" are not considered family members for this definition.
	
	Ineligible
	• Foreign Nationals
	• Land Trusts
	• Governmental entities and FHA-approved nonprofit corporations

Co-borrowers/ Co-signers	**Co-borrower** • Co-borrower **<u>must</u> take title** to the property • Co-borrower **<u>must</u>** sign all documents including the Loan Application, Note and the Mortgage/Deed of Trust • Income, assets and debts from all borrowers (including co-borrowers) are used in qualifying • Co-borrower **<u>must</u>** have a principal residence in the U.S. • Co-borrower **does not** have to occupy the subject property. See below. **Non-occupant co-borrowers <u>must</u> always have a qualifying credit score.** **Non-occupant co-borrowers are not eligible if the <u>occupying borrower or co-borrower has no credit score</u>.**

	Non-occupying co-borrowers <u>must</u> either be: • United States (U.S) citizens: or • Have a Principal Residence in the U.S. <u>Non-Occupying Borrower Transaction: Max LTV</u> Non-occupying borrower transactions are limited to 75% LTV. The LTV can be increased to a maximum of 96.5 percent if the borrowers are Family Members, provided the transaction does not involve: ▪ A Family Member selling to a Family Member who will be a non-occupying co-borrower; or ▪ A transaction on a two- to four-unit property A party who has a financial interest in the transaction, such as the seller, builder or real estate agent, may not be a co-borrower or co-signer. Exceptions may be granted when the party with the financial interest is a <u>Family Member</u>. **Non-occupant co-borrowers <u>must</u> always have a qualifying credit score.** **Non-occupant co-borrowers are not eligible if the <u>occupying borrower or co-borrower has no credit score</u>.** **Co-signers** - Ineligible

Credit	Valid Social Security Number
	▪ The mortgagee **<u>must</u>** document and validate for each borrower their valid social security number.
	
	<u>Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt</u>
	Mortgagees are prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured Mortgages. Mortgagees are required to determine whether the borrowers have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and **<u>must</u>** check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).
	• If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the Mortgagee **<u>must</u>** verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the Mortgagee **<u>must</u>** contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.
	• If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, then the Borrower is ineligible for an FHA-insured Mortgage until the Borrower resolves the debt with the creditor agency.
	• The Mortgagee may not deny a Mortgage solely on the basis of CAIVRS information that <u>has not been verified</u> by the Mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the Mortgagee may continue to process the mortgage application. <u>Verified</u> delinquent federal non-tax debt makes the borrower ineligible.
	• In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower **<u>must</u>** resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act. The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.
	• The Mortgagee **<u>must</u>** include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.
	
	Housing (Mortgage/Rental) Payment History (PITIA) is inclusive of all liens regardless of position, as well as all occupancy types.
	• AUS Approved loans – Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results
	    o Housing (Mortgage/Rental) Delinquencies - Loans will be ineligible if there is one or more housing (mortgage/rental) delinquency that is 1x60, 1x90, 1x120, 1x150 days or greater reported within 12 month of the date of the credit report
	• AUS Refer and manually underwritten loans
	    o FHA Credit Standards apply, subject to clear CAIVRS, LDP and GSA search results.
	    o For purchase transactions: 12 month housing payment (mortgage/rental) history via a credit report, cancelled checks or VOM to reflect no more than 0 x 30 in the previous 12 months.
	• Non-Purchasing Spouses – Refer to *Special Requirements/Restrictions*
	
	Minimum Credit Score Requirements (see *Loan Amount & LTV Limitations*)
	• **580** for both AUS TOTAL Scorecard approvals and manual underwrite
	
	<u>Minimum Decision Credit Score (MDCS)</u>
	A minimum decision credit score is determined for each borrower. Where the loan involves multiple borrowers, select the lowest minimum decision credit score for all borrowers. Where the loan involves multiple borrowers and one or more of the borrowers do not have a credit score (non-traditional or insufficient credit), use the lowest minimum decision credit score of the borrower(s) with credit score(s). If the borrower's MDCS is at or above 580 then the borrower is eligible for maximum financing.

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

Borrower with one credit score eligible as follows:

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

A loan that has either:

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

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

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

Non-Borrowing Spouse (see also *Documentation*)
The mortgagee **must** obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state. The credit report **must** indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the mortgagee **must** either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report **must** contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years.

Deferred Obligations (TOTAL)
Deferred Obligations (excluding student loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. The Mortgagee **must** verify and include deferred obligations in the Borrower's liabilities.

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

Student Loans (TOTAL and Manual) (ML 2016-08)
(The following is mandatory guidance effective for all case numbers assigned on or after June 30, 2016; however, mortgagees may begin using the policy immediately. The revised guidance allows the same calculation criteria to be applied regardless of the student loan payment plan type (e.g., income-based payment plans) or deferral status)
The mortgagee **must** include all student loans in the borrower's liabilities, regardless of the payment type or status of payment.

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

  The mortgagee **must** obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.
- Calculation of Monthly Obligation
  Regardless of the payment status, the mortgagee **must** use either:
  - The greater of:
    - 1 percent of the outstanding balance on the loan;
    - The monthly payment reported on the borrower's credit report; or
  - The actual documented payment, provided the payment will fully amortize the loan over its term.

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

Reduced Waiting Periods After Derogatory Events – Extenuating Circumstances
Reduced waiting periods due to extenuating circumstances may only be applied via Manual Underwriting.

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

Bankruptcy (Manual)
- Chapter 7 bankruptcy (liquidation) does not disqualify a borrower if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. During this time the borrower **must** have:
    - Re-established good credit; or
    - Chosen not to incur new credit obligations

  An elapsed period of less than two years, but not less than 12 months, may be acceptable, if the borrower:
    - Can show that the bankruptcy was caused by extenuating circumstances beyond the borrower's control; and
    - Has since exhibited a documented ability to manage their financial affairs in a responsible manner
- Chapter 13 bankruptcy does not disqualify a borrower if, at the time of case number assignment, at least 12 months of the pay-out period under the bankruptcy has elapsed
    - Borrower's payment performance **must** be satisfactory and all required payments have been made on time; and
    - Borrower has received written permission from the bankruptcy court to enter into the mortgage transaction
    - Mortgagee **must** document that borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur

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

Collection Accounts (TOTAL)
If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of $2,000 or greater, the mortgagee **must**:
- Verify that the debt is paid in full at the time of or prior to settlement using acceptable sources of funds;
- Verify that the borrower had made payment arrangements with the creditor and include the monthly payment in the borrower's DTI; or
- If a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the borrower's DTI.

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

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

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

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

Judgments (TOTAL and Manual)
Mortgagee **must** verify that court-ordered judgments are resolved or paid off prior to or at closing.

Judgments of a non-borrowing spouse in a community property state **must** be resolved or paid in full, with the exception of obligations excluded by state law.

- Exception: A judgment is considered resolved if the borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the borrower has made timely payments for at least three months of scheduled payments and the judgment will not supersede the FHA-insured mortgage lien. The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. Mortgagee **must** include the payment amount in the agreement in the borrower's monthly liabilities and debt.
    - Mortgagee **must** obtain a copy of the agreement and evidence that payments were made on time in accordance with agreement
- Mortgagee **must** provide the following documentation :
    - Evidence of payment in full, if paid prior to settlement;
    - The payoff statement, if paid at settlement; or
    - The payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title

Judgments: Additional Requirement (Manual)
Regardless of the amount of outstanding judgments, the lender **must** determine if the judgment was a result of:

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

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

Foreclosure and Deed-in-Lieu (DIL) of Foreclosure (Manual)
Borrower is not eligible if borrower had a foreclosure or a DIL of foreclosure in the three-year period prior to the date of case number assignment. This three-year period begins on the date of the DIL or the date that the borrower transferred ownership of the property to the foreclosing entity/designee.

- Exception: An exception to the three-year requirement is allowed if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the foreclosure
    - Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's mortgage was current at the time of the borrower's divorce, the ex-spouse received the property, and the mortgage was later foreclosed
    - The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance
    - Mortgagee **must** obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control

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

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

- Exception for Borrower Current at the Time of Short Sale: An exception to the three-year requirement is allowed if, from the date of case number assignment for the new mortgage:
    - All mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale; and
    - Installment debt payments for the same time period were also made within the month due
- Exception for Extenuating Circumstances: An exception to the three-year requirements is allowed if the short sale was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the short sale
    - Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's mortgage was current at the time of the borrower's divorce, the ex-spouse received the property, and the mortgage was later foreclosed
    - The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance
    - Mortgagee **must** obtain an explanation of the circumstance and document that the circumstance was beyond the borrower's control

Tax Liens (TOTAL and Manual)
Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required mini9mum of three months of payments. The payment amount in the agreement **must** be included in the borrower's DTI. The lien holder **must** subordinate the tax lien to the FHA-insured mortgage.

Credit Counseling/Payment Plan (TOTAL)
Participating in a consumer credit counseling program does not require a downgrade to a manual underwrite. No explanation or other documentation is needed.

Credit Counseling/Payment Plan (Manual)
Participating in a consumer credit counseling program does not disqualify a borrower, provided the mortgagee documents that:

- One year of the pay-out period has elapsed under the plan;
- The borrower's payment performance has been satisfactory and all required payments have been made on time; and
- The borrower has received written permission from the counseling agency to enter in to the mortgage transaction

Business Debt in Borrower's Name (TOTAL and Manual)
When business debt is reported on the borrower's personal credit report, the debt **must** be included in the DTI calculation, unless the mortgagee can document that the debt is being paid by the borrower's business, and the debt was considered in the cash flow analysis of the borrower's business. The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

- Mortgagee **must** document that the debt is paid out of company funds (e.g., 12 months cancelled checks) and that the debt was considered in the cash flow analysis of the borrower's business.

30-Day Accounts (TOTAL and Manual)
30-day accounts refer to a credit arrangement that requires the borrower to pay off the outstanding balance on the account every month. The mortgagee **must** verify the borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the borrower's DTI. If the credit report reflects any late payments in the last 12 months, the mortgagee **must** utilize 5 percent of the outstanding balance as the borrower's monthly debt to be included in the DTI.

- Use the credit report to document the balance and document that funds are available to pay off the balance in excess of the funds and reserves required to close the mortgage.

Payment History on Housing Obligations (Manual)
The Mortgagee **must** determine the Borrower's Housing Obligation payment history through:

- the credit report;
- verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
- verification of Mortgage received directly from the mortgage servicer; or
- a review of canceled checks that cover the most recent 12-month period.

The Mortgagee **must** verify and document the previous 12 months' housing history:

- For Borrowers who indicate they are living rent-free, the Mortgagee **must** obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.
- A Mortgage that has been modified **must** utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

FHA Back to Work – Extenuating Circumstances Policy
FHA Back to Work – Extenuating Circumstances Policy is not allowed (Impac overlay)

Liabilities

- True co-signed (guarantor) accounts do not have to be included in the debt if underwriter verifies **both** 12 month on time history and that the payments are being made by the primary obligor.
- If the credit report does not reflect a monthly payment on any open revolving account then mortgagee **must** use the payment shown on the current account statement or 5% of the outstanding balance.
- Lease payments (particularly auto leases) should typically be included in the DTI regardless of the remaining term

Closed-end Debts Paid Off Within 10 Months
Closed-end debts do not have to be included if:

- They will be paid off within 10 months **and**

	• The cumulative payments of all such debts are <u>less than or equal to 5%</u> of the borrower's gross monthly income. The borrower <u>may not pay down</u> the balance in order to meet the 10 month requirement. Manual Downgrade – See *Underwriting* for conditions that require a manual downgrade. <u>Delinquent Federal Tax Debt</u> Borrowers with delinquent Federal Tax Debt are ineligible. • Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt • The borrower has made timely payments for at least three months of scheduled payments • The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments • Mortgagee **<u>must</u>** include the payment amount in the agreement in the calculation of the borrower's DTI ratio • Mortgagee **<u>must</u>** include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable <u>Tax Liens (TOTAL and Manual)</u> Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required mini9mum of three months of payments. The payment amount in the agreement **<u>must</u>** be included in the borrower's DTI. The lien holder **<u>must</u>** subordinate the tax lien to the FHA-insured mortgage.

Documentation	<u>Maximum Age of Documents</u>
	General Document Age:
	• Documents used in origination and underwriting a mortgage may not be more than **120 days old at the Disbursement Date.**
	Counting of Days
	• Day one is the Day after the effective or issue date of the document, whichever is later.
	Disbursement Date – definition
	• The **Disbursement Date** refers to the date the proceeds of the mortgage are made available to the borrower.
	
	<u>Handling of Documents</u>
	• Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through any interested party, or the borrower.
	• This policy includes asset documentation
	
	<u>Mortgage Application</u>
	• The mortgagee **<u>must</u>** have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. This includes borrower self-completed mortgage applications.
	• Non-Borrowing Spouse Community Property State:
	  o The debt of a Non-Borrowing Spouse **<u>must also be included on the URLA</u>** if the borrower resides in or the property to be purchased is located in a community property state.
	  o The mortgagee **<u>must</u>** obtain a non-borrowing spouse's consent and authorization where necessary to :
	    ▪ Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).
	• Mortgage loan applications **<u>must</u>** be executed in the legal names of all parties, including the:
	  o Borrower(s)
	  o Loan Originator
	• Mortgage applications **<u>must</u>** be executed in the name of one or more **<u>individuals</u>**. <u>This includes trusts.</u>
	• Government-issued Photo ID:
	  o The mortgagee **<u>must</u>** include a statement that they have verified the borrower's identity using a valid government-issued photo identification prior to endorsement of the mortgage; or
	  o The mortgagee may choose to include a copy of such photo identification in the case binder.
	
	<u>Consent of Non-Borrowing Spouse</u>
	▪ To perfect a valid first lien under state law, the mortgagee **<u>must</u>** require a non-borrowing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the property.
	
	<u>Living Trusts and Security Instruments</u>
	▪ The name of the living trust **<u>must</u>** appear on the security instrument, such as the mortgage, deed of trust, or security deed.
	▪ The name of the individual borrower **<u>must</u>** appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other borrowers, if any, **<u>must</u>** also appear on the Note with the trust

	▪ The name of the individual borrower **is not required to appear on the property deed or title** Electronic signatures are allowed per FHA Mortgagee Letter 2014-03 except for closing documents. Impac does not allow electronic signatures on any closing documents. All documents provided at closing for signature **must** have original signatures. Electronic signatures on sales contracts are not acceptable when: • A Power of Attorney (POA) is involved, or • A sales contract requires a notary. A power of attorney may not be used for a loan with Inter Vivos (revocable) trust. A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.
Escrow Holdback	Repair Escrow for FHA 203(b) – A financed repair escrow for HUD REO is ineligible. However a buyer funded cash escrow in accordance with Impac's Escrow Holdback Policy is allowed on HUD REO properties as well as regular FHA purchase transactions.
Escrow Waivers	Ineligible, escrow account may not be waived. Escrow accounts for water purification systems are not allowed (Impac overlay)

Financing Types	Purchase Mortgages
	▪ The maximum LTV is 96.5% of the Adjusted Value
	▪ The Adjusted Value is the determined value of the property used for making an FHA Insured Mortgage Loan
	▪ For purchase transactions, the Adjusted Value is the lesser of the:
	    o Purchase price less any Inducements to Purchase; **or**
	    o Property Value
	        ▪ Property Value refers to the value as determined by the FHA Roster Appraiser
	
	Inducements to Purchase refer to certain expenses paid by the Seller and/or other Interested Party on behalf of the borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage. Examples of Inducements to Purchase include, but are not limited to:
	▪ Contributions exceeding 6% of the /Adjusted Value
	▪ Contributions exceeding the origination fees, other closing costs, and discount points
	▪ Decorating allowances
	▪ Repair allowances
	▪ Excess rent credit
	▪ Moving costs
	▪ Paying off consumer debt
	▪ Personal property
	▪ Below-market rent, except for borrowers who meet the Identity-of-Interest exception for family members
	
	Construction to Permanent (one-time-close, OTC) mortgages are not allowed.
	
	90 Day Resale Prohibition (Waiver expired 12/31/14 per FHA Info #14-73):
	Purchase Mortgages – Transaction is prohibited if Seller has owned property and on title less than 90 days at time of the purchase contract or earnest money agreement.
	• The Seller's 90 days is calculated based on the Seller's date of acquisition which is the settlement date of the Seller's purchase of the property.
	• The resale date is the date of the sales contract by a buyer intending to finance the property with an FHA-insured loan is signed.
	
	FHA Regulatory Exemptions – sales transactions exempt from FHA's 90-day rule are as follows:
	• Builder selling a newly built home or building a home for a borrower wishing to use FHA-insured financing.
	• Property acquired by an employer or relocation agency in connection with the relocation of an employee.
	• Resale of property by HUD under HUD's Real Estate Owned (REO) program.
	• Sale of single family properties by other United States Government agencies pursuant to programs operated by these agencies.
	• Sale of property by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.
	• Sale of property acquired by the seller through inheritance.
	• Sale of properties by state and federally-chartered financial institutions and government sponsored enterprises.
	• Sale of property by local and state government agencies.
	• Sale of properties within Presidentially Declared Disaster Areas.
	Any subsequent resale of the property described above **must** meet the 90-day threshold in order for the mortgage to be eligible as security for FHA insurance.

	Seller of the property **must** be on title as the owner of record:
	• To be eligible for a mortgage insured by FHA
	  • Property **must** be purchased from the owner of record,
	  • The transaction may not involve any sale or assignment of the sales contract, and
	  • The lender **must** obtain documentation verifying the seller is the owner of record.

Geographic Locations/ Restrictions, as applicable	Eligible states are as follows: • **Wholesale:** All states (including DC) are eligible except: ○ DE, ME, MA, RI, WY Additional restrictions as follows: Hawaiian Lava-Flow Hazard Zones – The U.S. Geological Survey (USGS) categorizes the island of Hawaii into nine "lava zones" based on each zone's probability of exposure to lava flows caused by volcanic eruption. Properties in lava zones 1 and 2 are not eligible for loans funded or purchased by Impac Mortgage Corp. due to increased risk of property destruction from lava flows within these areas. The Hawaii Lava-Flow Hazard Zone Map can be accessed at: http://hvo.wr.usgs.gov/hazards/FAQ_LavaFlowHazardZone/ and http://pubs.usgs.gov/mf/1992/2193/ Texas Cash-out 50(a)(6) is ineligible State specific regulatory requirements supersede all underwriting guidelines set forth by Impac.
Good Neighbor Next Door Program	This is a standard FHA flexibility allowed for HUD REO properties. The program helps borrowers in certain service occupations obtain a home in a revitalization area at a 50% discount from list price. These FHA loans do not have special coding (e.g., case number suffix/ADP code). Impac does not have a separate product code for these loans. Summary of Good Neighbor Next Door Program • Allows law enforcement officers, K-12 teachers, firefighters/emergency medical technicians to purchase a HUD REO at a 50% discounted price • Borrower pays $100 down and may finance closing costs, prepaids, and Up Front Mortgage Insurance Premium (UFMIP) into an FHA loan. (HUD will not pay any closing costs or real estate commissions for the buyer) • HUD provides a "silent second" for 50% of purchase price, zero interest, zero payment, forgivable after 3 years of borrower's primary residency in the home. (HUD views the occupancy obligation seriously and vigorously pursues violators to the fullest extent of the law. HUD may foreclose this mortgage if borrower does not comply with occupancy requirement.) • Buyer **must** make a full price offer. Many times there are multiple offers for a property and the buyer is then determined by lottery • Borrower is not required to be a first time home buyer…however, borrower and borrower's spouse may not have owned any residential real estate during the one year prior to submitting a bid For additional information on Good Neighbor Next Door Program see: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot
High-Cost Mortgage Loans	Impac does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)

Identity of Interest Transactions	The lender **must** obtain evidence of prior ownership when a property was sold within 12 months of the case number assignment date. The lender **must** review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.
	
	An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members.
	• Business Relationship refers to an association between individuals or companies entered into for commercial purposes.
	
	• Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:
	  • child, parent, or grandparent;
	    ○ a child is defined as a son, stepson, daughter, or stepdaughter;
	    ○ a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
	  • spouse or domestic partner;
	  • legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
	  • foster child;

	• brother, stepbrother; • sister, stepsister; • uncle; • aunt; or • son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower. Identity of Interest transactions may result in a reduced maximum loan-to-value limitation. (see below) Maximum LTV for Identity-of-Interest and Tenant/Landlord Transactions • The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85 percent. • The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent. • Exceptions to the Maximum LTV The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances. o Family Member Transactions - The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence: ▪ the Principal Residence of another Family Member; or ▪ a Property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required. o Builder's Employee Purchase - The 85 percent LTV restriction may be exceeded if an employee of a builder, who is not a Family Member, purchases one of the builder's new houses or models as a Principal Residence. o Corporate Transfer - The 85 percent LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee. o Tenant Purchase - The 85 percent LTV restriction may be exceeded if the current tenant purchases the Property where the tenant has rented the Property for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required.
Income	Self-Employment Income (TOTAL and Manual) • Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest. There are four basic types of business structures. They include: o sole proprietorships; o corporations; o limited liability or "S" corporations; and o partnerships. • Minimum Length of Self-Employment o The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed for at least two years. o If the Borrower has been self-employed between one and two years, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years. • Stability of Self-Employment Income o Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Mortgagee **must** downgrade and manually underwrite. ▪ **For a Manual Underwrite,** if the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the mortgagee **must** document that the business income is now stable. A Mortgagee may consider income as stable after a 20 percent reduction if the Mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income. • Required Documentation o (TOTAL) Individual and Business Tax Returns - The Mortgagee **must** obtain complete individual federal income tax returns for the most recent two years, including all schedules. The Mortgagee **must** obtain the Borrower's business tax returns for the most recent two years unless the following criteria are met: ▪ individual federal income tax returns show increasing Self-Employment Income over the past two years; ▪ funds to close are not coming from business accounts; and ▪ the Mortgage to be insured is not a cash-out refinance. In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a

	signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.
	o (Manual) Individual and Business Tax Returns - The Mortgagee **must** obtain signed, completed individual and business federal income tax returns for the most recent two years, including all schedules. In lieu of signed individual or business tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-T, *Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.
	o (TOTAL and Manual) Profit & Loss Statements and Balance Sheets - The Mortgagee **must** obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. **A balance sheet is not required for self-employed Borrowers filing Schedule C income.**
	  ○ If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return **must** be obtained from the IRS.
	• Calculation of Effective Income - The Mortgagee **must** analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in HUD Manual 4000.1, Appendix 2.0 – *Analyzing IRS Forms.*
	  ○ The Mortgagee **must** calculate gross Self-Employment Income by using the lesser of:
	    ▪ the average gross Self-Employment Income earned over the previous two years; or
	    ▪ the average gross Self-Employment Income earned over the previous one year.
	
	Question: If a loan application is dated May 1st and the last tax filing was for the previous calendar year, do we need a year-to-date Profit and Loss statement for a self-employed borrower?
	Answer: Yes, no more than one calendar quarter may elapse without income documentation.
	
	Mortgage Credit Certificates (MCC) are not allowed for qualifying income.
	
	Frequent Changes in Employment (TOTAL and Manual)
	If the Borrower has changed jobs more than three times (i.e., more than 4 jobs) in the previous 12-month period, or has changed lines of work, the Mortgagee **must** take additional steps to verify and document the stability of the Borrower's Employment Income. The Mortgagee **must** obtain:
	• transcripts of training and education demonstrating qualification for a new position; or
	• employment documentation evidencing continual increases in income and/or benefits.
	
	Gaps in Employment (TOTAL and Manual)
	For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:
	• the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
	• a two year work history prior to the absence from employment using standard or alternative employment verification.
	
	Addressing Temporary Reduction in Income (TOTAL and Manual)
	For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:
	• the Borrower intends to return to work;
	• the Borrower has the right to return to work; and
	• the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.
	
	For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Mortgagee may use the Borrower's pre-leave income.
	
	For Borrowers returning to work after the first Mortgage Payment due date, the Mortgagee may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.
	
	Required Documentation - The Mortgagee **must** provide the following documentation for Borrowers on temporary leave:
	• a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
	• documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and

- documentation of sufficient liquid assets, in accordance with FHA guidelines, used to supplement the Borrower's income through intended date of return to work with current employer.

Overtime and Bonus Income (TOTAL and Manual)

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

Part-Time Employment (TOTAL)

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

- The Mortgagee may use Employment Income from Part-Time Employment as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.
- The Mortgagee **must** average the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use a 12-month average of hours at the current pay rate.

Disability Benefits (TOTAL and Manual)

- The Mortgagee **must** verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee **must** obtain documentation that establishes award benefits to the Borrower.
- If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.
- If the Notice of Award or equivalent document does not have a defined expiration date, the Mortgagee may consider the income effective and reasonably likely to continue. The Mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.
- **Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.**

Social Security Disability (TOTAL and Manual)

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

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

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

Private Disability (TOTAL and Manual)

- For private disability benefits, the Mortgagee **must** obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the insurance provider.

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

The Mortgagee **must** obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

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

Military Income (TOTAL and Manual)

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

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

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

The Mortgagee **must** obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Mortgagee **must** verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

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

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

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

The Mortgagee **must** document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

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

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

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

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

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

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

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

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

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

- Two- to Four-Units
  The Mortgagee **must** verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.
- One Unit
  The Mortgagee **must** verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement,* showing fair market rent and, if available, the prospective lease.

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

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

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

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

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

- Required Documentation - The Mortgagee **must** verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment. For SSI, the Mortgagee **must** obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.

In addition to verification of income, the Mortgagee **must** document the continuance of this income by obtaining from the Borrower

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

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

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

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

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

- Required Documentation - The Mortgagee **must** verify and document the Borrower's receipt of periodic payments from the Borrower's Pension and that the payments are likely to continue for at least three years. The Mortgagee **must** obtain any one of the following documents:
  - federal tax returns;
  - the most recent bank statement evidencing receipt of income from the former employer; or
  - a copy of the Borrower's Pension/retirement letter from the former employer.
- The Mortgagee **must** use the current amount of Pension income received to calculate Effective Income.

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

- Required Documentation - The Mortgagee **must** verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years. The Mortgagee **must** obtain the most recent IRA/401(k) statement and any one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income.
- For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Mortgagee **must** use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the Mortgagee **must** use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee **must** use the average over the time of receipt.

Capital Gains and Losses (TOTAL and Manual)
Capital gains or losses **must** be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

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

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

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

	Commission Income has been earned if less than two years; or o the average net Commission Income earned over the previous one year. The Mortgagee **<u>must</u>** calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income. The Mortgagee **<u>must</u>** reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review HUD Manual 4000.1, Appendix 2.0 – *Analyzing IRS Forms.* **<u>Expected Income (TOTAL and Manual)</u>** Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing. • The Mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business. • Required Documentation - The Mortgagee **<u>must</u>** verify and document the <u>existence</u> and <u>amount</u> of Expected Income with the employer in writing and that it is <u>guaranteed to begin within 60 Days of mortgage closing</u>. For expected Retirement Income, the Mortgagee **<u>must</u>** verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing. • Income is calculated in accordance with the standards for the type of income being received. The Mortgagee **<u>must</u>** also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.
Internet Links	To access Mortgagee Letters, Handbooks, Webinars, and multiple resources, go to FHA Lenders page: **http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender** FHA FAQs may be accessed at: **http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ**
Limitations on Other Real Estate Owned	To prevent circumvention of the restrictions on FHA-insured mortgages to investors, **FHA <u>generally</u> will not insure more than one mortgage for any borrower** (transactions in which an existing FHA mortgage is paid off and another FHA mortgage is acquired are acceptable). Any person individually or jointly owning a home covered by a mortgage insured by FHA in which ownership is maintained may not purchase another principal residence with FHA mortgage insurance <u>except under the situations described below</u>. Properties previously acquired as investment properties are not subject to these restrictions. FHA will not insure a mortgage if FHA concludes that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties, even if the property to be encumbered will be the only one owned using FHA mortgage insurance. FHA does not object to homebuyers using FHA mortgage insurance more than once if compatible with the homebuyer's needs and resources as follows (HUD Handbook 4000.1): **<u>Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower</u>** The table below describes the **<u>only</u>** circumstances in which a Borrower with an existing FHA-insured Mortgage for a Principal Residence may obtain an additional FHA-insured Mortgage on a new Principal Residence.

Policy Exceptions	Eligibility Requirements
Relocation	A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is: • relocating or has relocated for an employment-related reason; **<u>and</u>** • establishing or has established a new Principal Residence in an area **<u>more than 100 miles</u>** from the Borrower's current Principal Residence. If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.
Increase in family size	A Borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: • the Borrower has had an increase in legal dependents and the Property now fails to meet family needs; and • the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.

	<table><tr><td>Vacating a jointly-owned Property</td><td>A Borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.</td></tr><tr><td>Non-occupying co-Borrower</td><td>A non-occupying co-Borrower on an existing FHA-insured Mortgage may qualify for an FHA-insured Mortgage on a new Property to be their own Principal Residence.</td></tr></table> Under no circumstances may investors use the exceptions described above to circumvent FHA's ban on loans to private investors and acquire rental properties through purportedly purchasing "principal residences". Considerations in determining the eligibility of a borrower for one of these exceptions are the length of time the previous property was owned by the borrower and the circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage. In all other cases, the purchasing borrower either **must** pay off the FHA-insured mortgage on the previous residence or terminate ownership of that property before acquiring another FHA-insured mortgage.
Manufactured Home Criteria	The following table contains overlays, clarifications, and additions to existing guidelines regarding manufactured homes.

Appraisal	Full interior and exterior appraisal **must** be completed (Form 1004C) All comparables should be sales of manufactured homes on permanent foundation similar to subject (e.g., similar configuration and quality) Distance of the comparable sales **must** be reasonable The following are ineligible: • If the site or manufactured home is substantially non-conforming with the neighborhood it is ineligible • Creating comparable sales by combining vacant land sales with the contract purchase price of the home is prohibited
Construction Status	Construction status is determined at time of appraisal. New Construction refers to properties that are proposed, under construction, or were completed within one year as defined below: • Proposed – no concrete or permanent material placed. Digging of footing and placement of re-bar is not considered permanent • Under construction – Refers to the period from first placement of permanent material to 100% completion (finalized and ready to occupy, with no certificate of occupancy (CO) issued) • Existing (completed) for less than one year – Refers to properties which are 100% complete, legally occupiable (CO issued), but never occupied. The one year new construction period runs from the date the CO is issued for up to 12 months
Credit	Major Derogatories - Follow FHA and Impac guidelines herein
Documentation	Evidence of surrender of certificate of title or that no certificate was issued, refer to individual state requirements. • Confirm property is legally classified and taxed as real property, on a permanent foundation, and owner owns both land and MFH • ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufactured homes to be treated as real property • Deed of Trust (or other security instrument) **must** include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description **must** include the serial or VIN number for each unit/section; make, model, size, and any other information required by applicable law to definitively identify the manufactured home. • Affidavit of Affixture/Affixation – Borrower and Lender **must** sign and notarize acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage. • Limited Power of Attorney pertaining to title issues and foreclosure **must** be signed with closing documents
Financing Types	Purchase Transaction: • See *Construction Status* above for New Construction definition • An existing (not new construction) manufactured home **must** have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date.

		• The LTV ratio for a loan secured by an existing manufactured home will be based on the lowest of: o The sales price of the manufactured home and land or o The current appraised value of the manufactured home and land.
	MFH Property Requirements	Minimum 400 square feet of gross living area Multi-width only, no single wide The land where the manufactured home rests **must** be fee simple The MFH **must** be a one-unit dwelling legally classified as real property The towing hitch, wheels, and axles **must** be removed The MFH **must** assume the same characteristics of a site-built housing The MFH **must** have sufficient square footage and room dimensions to be acceptable to purchasers in the subject market area The MFH **must** be located on an all-weather accessible road The MFH **must** have been built in compliance with Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 as amended and in force at the time the home is manufactured, and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by: • HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition the data plate includes pertinent information about the unit including a list of factory-installed equipment; and • HUD Certification Label (sometimes referred to as a HUD "seal" or "tag") – A metal plate located on the exterior of each section of the home The appraisal form 1004C **must** indicate evidence of both the HUD Data Place/Compliance Certificate and the HUD Certification Label The MFH **must** be attached to a permanent foundation system The MFH **must** be permanently connected to the septic or sewage system The MFH **must** be permanently connected to all necessary utilities (water, electricity, gas service, etc.) The MFH **must** not have been installed or occupied previously at any other location or site (re-siting) The MFH **must** not have any additions or structural modifications to the original structure • This includes additional room count or additional living area square footage or penetrations through the shell of the property • This includes **attached** porches, decks, carports, garages, etc. Any additions **must** be inspected by the local agency in charge of inspecting and permitting manufactured homes. If no agency exists, then a structural engineer **must** certify that the addition/attachment has no negative effect on the structural integrity of the manufactured home. Foundation Certification File **must** contain an Engineer's Certification on Foundation Compliance attesting to compliance with the current PFGMH (4930.3), that **must** be: • Completed by a licensed professional engineer or registered architect licensed/registered in the state where the manufactured home is located • Site-specific, and • Included in both the lender's loan file and the insuring binder submitted to FHA Note: The certification **must** contain the engineer's or registered architect's signature, seal, and/or state license/certification number. In states where seals are issued, the seal **must** be on the certification. A copy of the foundation certification, showing that the foundation met the PFGMH guidelines that were in effect at the time of certification, is acceptable for future FHA loans, provided there are no alterations and/or observable damage to the foundation. A copy of the foundation certification is not required in the loan file or insuring binder for any FHA-to-FHA transaction, provided that

	<table><tr><td></td><td>• no modifications have been made to the foundation or structure from the date of the effective certification, or • FHA/HUD Real Estate Owned (REO) Division sales</td></tr><tr><td>FHA References</td><td>4145.1 3-4; 4150.2 8, & Appendix D-2; HUD Handbook 4000.1 4930.3 – Permanent Foundations Guide for HUD Manufactured Housing FHA FAQ site: http://portal.hud.gov/hudportal/HUD?src=/FHAFAQ</td></tr><tr><td>Other Information</td><td>Properties that are under construction or existing for less than one year are limited to 90% LTV unless: o The mortgagee issued an Early Start Letter; o A building permit and CO were issued by the local jurisdiction; or o The property has a 10-year warranty Proposed construction may not exceed 90% LTV</td></tr><tr><td>Restrictions</td><td>• The following are ineligible: o Non-traditional credit o ARMs o High Balance loans o Re-siting of manufactured home o Single Width manufactured home o Manufactured home in condominium project o Manufactured home on leasehold o MFH properties within SFHA (Special Flood Hazard Area) or any property that requires flood insurance</td></tr><tr><td>Termite Control</td><td>The steel chassis under a newly-constructed manufactured home unit is not an effective termite barrier. Any one, or a combination of the following methods is required for maximum protection against termites, including • Chemical soil treatment • EPA-registered bait treatments • Pressure preservative-treated wood, or • Naturally termite-resistant wood. Termite protection policies for existing manufactured homes are handled in the same manner as stick-built homes. State or local requirements are to be followed.</td></tr></table>
Mortgage Insurance	Mortgage Insurance is required on all loans. • The section of the Act under which the loan will be insured determines the mortgage insurance to be used. **Sections 203b, and 234c (Condos)** • Upfront MIP (UFMIP) is required • Annual (periodic) MIP payable monthly is required • Refer to the *FHA Mortgage Insurance Premium Matrix* (attached) for details on UFMIP and monthly MIP
Occupancy	Primary Residence Military Personnel Eligibility Borrowers who are military personnel, who cannot physically reside in a Property because they are on Active Duty, are still considered owner occupants and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject Property as their Principal Residence, or the Borrower intends to occupy the subject Property upon discharge from military service. • The Mortgagee **must** obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject Property. • The Mortgagee **must** obtain the Borrower's intent to occupy the subject Property upon discharge from military service, if a Family Member will not occupy the subject Property as their Principal Residence.
Prepayment Penalty	Not permitted. However, if refinancing and the payoff check for the existing loan is not received by the servicing lender by the first day of the month, the lender may collect interest on the existing loan through the end of the month. See FHA guidance.
Program Exclusions	HUD Section 184 Indian Home Loan Guarantee Program HUD Section 247 Hawaiian Home Lands HUD Section 248 Mortgages on Indian Land Assumptions of existing FHA loans Energy Efficient Mortgage Program Mortgage Credit Certificates – may not be used for qualifying income

	Back to Work – Extenuating Circumstances Policy – not allowed Construction Take-out Single Close (i.e., one-time-close, OTC) loans

Property Types	Eligible
	• 1 - 2 units
	• 3 – 4 units
	    • Self-Sufficiency Rental Income Eligibility
	    Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).
	    o The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.
	    o Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.
	• PUDs
	• Condos
	    • **Must** be on FHA's approved list
	    • If the condo project has been withdrawn from FHA's approved list or does not comply with FHA's condominium project eligibility guidelines as determined by the Loan-level certification for Individual Unit Financing process is ineligible.
	    • Site condos do not require condominium project approval
	• Modular Pre-Cut/panelized Housing
	• Manufactured Housing (see separate *Manufactured Home Criteria* section)
	
	Ineligible
	• Condo Hotels
	• Co-ops
	• Leasehold
	• Properties located within designated Coastal Barrier Resource system (CBRS) areas
	• Properties with greater than 25 acres
	• Uniquely designed properties such as dome homes, log cabins, earth berms, and underground homes
	• Properties that require water purification systems are ineligible (Impac overlay)

Qualifying Rate and Ratios	Qualify at the note rate (fixed rate loans and hybrid ARMs, including 3/1 and 5/1) **Ratios** AUS approved – ratios evaluated by AUS AUS Refer may be manually underwritten so long as loan is "eligible" (e.g., Refer/Eligible)
Secondary Financing	**Impac approved** down payment assistance is allowed per FHA guidelines. Secondary financing funds may be provided by a Family Member [1] • 100% of funds for down payment, closing costs, prepaid expenses and discount points may be from a secured or unsecured loan from a family member. **Refer to HUD Handbook 4000.1 for specific rules and documentation requirements for Secondary Financing.** Below are CLTV limitations for secondary financing based on the provider: ▪ Governmental Entities – no maximum CLTV ▪ HUD-Approved Nonprofits – no maximum CLTV ▪ Family Member – CLTV ratio of the Base Loan Amount and secondary financing amount **must** not exceed 100% of the Adjusted Value ▪ Private Individuals and Other Organizations – CLTV ratio of the Base Loan Amount and secondary financing amount **must** not exceed the applicable FHA LTV limit **Footnotes:** **1** Family Member – see *Identity of Interest Transactions* for definition of Family Member
Special Requirements/ Restrictions	Per Diem Interest and Interest Credits • The Mortgagee may collect per diem interest from the Disbursement Date to the date amortization begins. • Alternatively, the Mortgagee may begin amortization up to 7 Days prior to the Disbursement Date and provide a per diem interest credit. **Any per diem interest credit may not be used to meet the Borrower's MRI.** • Per diem interest **must** be computed using a factor of 1/365th of the annual rate. Upfront Mortgage Insurance Premium (UFMIP) The UFMIP **must** be entirely financed into the Mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are

	added to the total cash settlement requirements. However, if the UFMIP is financed into the Mortgage, the entire amount is to be financed except for any amount less than $1.00. The mortgage amount **must** be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash. HUD REO properties: Refer to link for State specific program updates and availability http://portal.hud.gov/portal/page/portal/HUD/topics/hud_homes **NOTE: The Energy Efficient Mortgage Program is not available.** **Mortgage Credit Certificate (MCC)** • Ineligible **Non-Borrowing Spouse in a Community Property State** Community Property States are as follows. • Arizona • California • Idaho • Louisiana • Nevada • New Mexico • Texas • Washington • Wisconsin **Termites/Wood Destroying Insects/Organism Requirements** For existing properties, the mortgagee **must** confirm that the property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, the mortgagee **must** obtain such inspection and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms.

Taxes	The lender **must** use accurate estimates of monthly tax escrows when calculating the total mortgage payment
	• In new construction cases and manufactured homes converting to real estate, property tax estimates **must** be based on the land and improvements.
	• Where real estate taxes are abated, landers may use the abated amount provided that
	    o The lender can document the abated amount with the taxing authority and
	    o The abatement will remain in place for at least the first three years of the mortgage.

Underwriting	Loans **must** be underwritten by a DE Underwriter The mortgagee **must** obtain **the borrower's initial completed *signed* URLA** (Fannie Mae Form 1003/Freddie Mac Form 65) and Page 2 of form HUD-92900-A ***before* underwriting** the mortgage application. Underwriting method is either via TOTAL Scorecard or Manual Underwriting May follow AUS Approve decision and documentation requirements. • Refer to *Credit* for additional restrictions **Underwriting HUD Employee Loans** • If the applicant is an employee of HUD or a member of a HUD-employee's household (spouse, parent or child), the application **must** be submitted to the Homeownership Center for prior approval processing Contact the respective HOC (Homeownership Center) for procedures **AUS (TOTAL Scorecard)** • All loans **must** be submitted thru FHA TOTAL Scorecard • AUS Approve – All loan data submitted to AUS for Approved/Accept Finding **must** be accurate and validated • AUS Refer – Loan **must** meet manual underwriting guidelines. **Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)** The mortgagee **must** downgrade and manually underwrite any mortgage that received an Accept recommendation if: • The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard • Additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage • The borrower has $1,000 or more collectively in disputed derogatory credit accounts o Disputed derogatory accounts of a non-borrowing spouse in a community property state are not

included in the cumulative balance for determining if the mortgage application is downgraded to a REFER.

- The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment
- The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale)
- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure
- The borrower has undisclosed mortgage debt that requires a downgrade
  When an existing debt or obligation that is secured by a mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the lender **must** obtain a verification of mortgage directly from the servicer. The mortgage **must** be downgraded to a Refer and manually underwritten if the mortgage history reflects:
  - A current delinquency;
  - Any delinquency within 12 months of the case number assignment date; or
  - More than two 30 day late payments within 24 months of the case number assignment date.

  A mortgage that has been modified **must** utilize the payment history in accordance with the modification agreement for the time period of modification in determining late mortgage payments.
- Business income shows a greater than 20 percent decline over the analysis period
- The mortgage payment history requires a downgrade as defined in Housing Obligations/Mortgage Payment History
  - Purchase and No Cash-Out Refinance: The mortgage **must** be downgraded to a REFER and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:
    - Three or more late payments of greater than 30 days;
    - One or more late payments of 60 days plus one or more 30-day late payments; or
    - One payment greater than 90 days late

    A mortgage that has been modified **must** utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments
  - Cash-Out Refinance Transactions: The mortgage **must** be downgraded to a REFER and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:
    - A current delinquency; or
    - Any delinquency within 12 months of the case number assignment date.

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

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

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

Approvable Ratio Requirements (Manual Underwriting)

The **maximum** Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

Manual Underwriting Matrix		
Lowest Minimum Decision Credit Score	**Maximum Qualifying Ratios (%)**	**Acceptable Compensating Factors** (see info below table for documentation)
500-579 (not allowed by Impac) or No Credit Score	31/43	Not applicable. Borrowers with minimum decision credit scores below 580, or with no credit score may not exceed 31/43 ratios.
580 and above	31/43	No compensating factors required

580 and above	37/47	**<u>One</u>** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	Two of the following: • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

<u>Documenting Acceptable Compensating Factors (reference the above table) (Manual)</u>
<u>Verified and Documented Cash Reserves</u> - Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed **three total monthly Mortgage Payments (one and two units);** or
- Reserves are equal to or exceed **six total monthly Mortgage Payments (three and four units).**

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

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

<u>Minimal Increase in Housing Payment</u> - A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than $100 or 5 percent, whichever is less; and
- there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced **<u>must</u>** have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment Mortgagees may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

<u>No Discretionary Debt</u> - No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, <u>do not qualify under this criterion</u>. Credit lines not in the Borrower's name but for which they are an authorized user <u>do not qualify under this criterion</u>.

<u>Significant Additional Income Not Reflected in Effective Income</u> - Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- the Mortgagee **<u>must</u>** verify and document that the Borrower has received this income for at least one year, and it will likely continue; and
- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion. This compensating factor may be cited **<u>only in conjunction with another compensating factor</u>** when qualifying ratios exceed 37/47 but are not more than 40/50.

<u>Residual Income</u> - Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) *Lenders Handbook* - VA Pamphlet 26-7, Chapter 4.9 b and e.

	<u>Calculating Residual Income</u> - Residual income is calculated as total Effective Income of all occupying Borrowers less: • state income taxes; • federal income taxes; • municipal or other income taxes; • retirement or Social Security; • proposed total Mortgage Payment; • estimated maintenance and utilities; • job related expenses (e.g., child care); and • the amount of the Gross Up of any Non-Taxable Income. If available, Mortgagees **<u>must</u>** use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Mortgagees may rely upon current pay stubs. For estimated maintenance and utilities, Mortgagees **<u>must</u>** multiply the Gross Living Area of the Property by the maintenance and utility factor found in the Lenders Handbook - VA Pamphlet 26-7. <u>Using Residual Income as a Compensating Factor</u> - To use residual income as a compensating factor, the Mortgagee **<u>must</u> count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size."** • <u>Exception</u> - The Mortgagee may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals **<u>must</u>** voluntarily provide sufficient documentation to verify their income to qualify for this exception. From the table provided in *Lenders Handbook* - VA Pamphlet 26-7, select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor. Compensating factors cited to support the underwriting decision **<u>must</u>** be recorded in the *Underwriter Comments* section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*. Documentation supporting the compensating factors cited **<u>must</u>** be included in the endorsement case binder including, if applicable, a worksheet attached to Form HUD-92900-LT reflecting the calculation of residual income.

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

Upfront Mortgage Insurance Premium (UFMIP)
All Mortgages: 175 basis points (bps) (1.75% of the Base Loan Amount.
Exceptions: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA-endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247) • Indian Lands (Section 248)
Indian Lands (Section 248) do not require a UFMIP

Annual Mortgage Insurance Premium (MIP)
Applies to all Mortgages except: • Streamline Refinance and Simple Refinance Mortgages used to refinance a previous FHA endorsed Mortgage on or before May 31, 2009 • Hawaiian Home Lands (Section 247)
Hawaiian Home Lands (Section 247) do not require Annual MIP

Mortgage Term of More Than 15 Years

Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $625,500	≤ 90.00%	80	11 years
	> 90.00% but ≤ 95.00%	80	Mortgage term
	> 95.00%	85	Mortgage term
Greater than $625,500	≤ 90.00%	100	11 years
	> 90.00% but ≤ 95.00%	100	Mortgage term
	> 95.00%	105	Mortgage term

Mortgage Term of Less than or Equal to 15 Years

Base Loan Amount	**LTV**	**MIP (bps)**	**Duration**
Less than or equal to $625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than $625,500	≤ 78,.00%	45	11 years
	> 78.00% but ≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

Streamline Refinance, Simple Refinance:

For refinance of previous Mortgage endorsed on or before May 31, 2009
UFMIP: 1 (bps) (.01%) All Mortgages

All Mortgage Terms

Base Loan Amount	**LTV**	**Annual MIP (bps)**	**Duration**
All	≤ 90.00%	55	11 years
	> 90.00%	55	Mortgage term

For Mortgages where FHA does not require an appraisal, the value from the previous Mortgage is used to calculate the LTV.

Hawaiian Home Lands Section 247:

Hawaiian Home Lands Upfront MIP (UFMIP)

	Loan Term in Years			
	≤ 18	> 18 and ≤ 22	> 22 and ≤ 25	> 25
MIP Financed	2.400%	3.000%	3.600%	3.800%
MIP not Financed	2.344%	2.913%	3.475%	3.661%

Annual MIP is not assessed on Section 247 Mortgages.