

# HUD Underwriting Changes

# Goodbye to the 4155 Handbook

- Approximately *450* handbooks, mortgagee letters and policy statements were consolidated into the new handbook. The new handbook **4000.1** contains about *806* pages.
- New guidelines are effective for ALL Case numbers issued on or after **9/14/15**.

# HUD Website

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_4000-1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1)

The screenshot shows a web browser window with the URL [portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_4000-1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1). The page header includes the HUD.GOV logo, the U.S. Department of Housing and Urban Development name, and Secretary Julián Castro. A navigation menu lists various sections like HOME, PRESS ROOM, AUDIENCES, STATE INFO, PROGRAM OFFICES, TOPIC AREAS, ABOUT HUD, RESOURCES, and CONTACT US. The main content area features a breadcrumb trail: HUD > Program Offices > Housing > Single Family > Handbook 4000-1. The title of the page is "Single Family Housing Policy Handbook (HUD Handbook 4000.1) Information Page". Below the title, there is a sub-heading "Claims and Disposition Section Posted to Drafting Table" and a paragraph of text: "On August 5, 2015, the Federal Home Administration (FHA) posted its draft Claims and Disposition section on the **FHA Drafting Table**. FHA invites all stakeholders to review the draft content documents and to provide feedback from August 5 through September 4, 2015. This posting is a continuation of FHA's progress toward a consolidated, authoritative SF Handbook that will make it easier for stakeholders to do business with FHA." To the right of the main text, there are links for "Print Friendly Version" and "SHARE" (with social media icons). Below these links is a yellow box with the text "SF Policy Handbook 4000.1" and "Access the Online SF Handbook" next to a small image of a building.



## HUD CHANGES

Type	Old Guidance	New Guidance	Notes
1 Age	Max age of all document is 120 days from NOTE for existing and 180 days for new construction.	Max age of all documents is 120 days from the NOTE date (except for appraisal) regardless of existing or new construction.	<b>RESTRICTION</b>
2 Asset - RE Tax Credits	RE Tax credits for minimum required investment - no guidance.	Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the MRI, if the lender 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.	<b>RESTRICTION</b>
3 ASSET: Large Deposit	Large Deposit: Any single deposit that exceeds 25% of total monthly qualifying income.	Large deposits are defined as 1% of the adjusted purchase price of appraised value. Questionable deposits must still be addressed.	<b>RESTRICTION</b>
4 ASSET-EMD	If any amount of the EMD is applied towards the funds to close and the client does NOT have at least 2 times of the amount verified in the account, then the source and receipt of funds must be documented.	Any EMD > 1% of the value of the home must be documented. If the EMD is from gift funds, regardless of the amount, will need to be documented.	<b>RESTRICTION</b>
5 ASSET-Employer Assistance	If any repayment is required on employer assistance, the payment should be factored into the borrower's DTI.	A salary advance CANNOT be used for funds to close. If borrower is receiving employer assistance, a salary advancement cannot be considered as cash to close.	<b>RESTRICTION</b>
6 ASSET-Gift	Not clear about requiring donor's bank statement in all instances.	Requires donor's bank statement showing withdrawal of funds if funds were not paid directly to the closing.	<b>RESTRICTION</b>





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Type	Old Guidance	New Guidance	Notes
7 Asset-Gift	RE Commission is used as funds to closing – no guidance.	When commission income is used as funds to close through earnings or gift, lender must document borrower or family member real estate license and entitlement to commission from purchase.	<b>RESTRICTION</b>
8 ASSET-Joint Account	No guidance.	A written statement from the non-borrower individual that the borrower has full access to use the funds.	<b>RESTRICTION</b>
9 Asset-Manual Underwrite Reserves	Unclear	Depending on FICO score. It can be from 1 month to 6 months reserves. Reserves cannot be from cash back on refi transaction, gift or borrowed funds.	<b>RESTRICTION</b>
10 ASSET-Net Proceeds	When using net proceeds from an arms-length sale, a copy of the executed HUD-1/settlement statement from the sale of the home signed by the buyer, seller, or their authorized agents that identifies the client as seller, settlement date, property sold, purchase price, new proceeds, and disposition of all liens.	When using net proceeds from an arms-length sale, a copy of the executed HUD-1/settlement statement from the sale of the home signed by the buyer, seller, or their authorized agents that identifies the client as seller, settlement date, property sold, purchase price, new proceeds, and disposition of all liens. Will also need to document that the transaction was ARMS-LENGTH.	<b>RESTRICTION</b>
11 ASSET-Retirement Asset	Most recent account statement. Evidence of liquidation is not required unless the lender is using more than 60%.	Evidence of liquidation is required if any portion is required for funds to close.	<b>RESTRICTION</b>
12 CAIVRS	Delinquent federal debt makes borrower ineligible.	VERIFIED delinquent federal debt makes the borrower ineligible.	<b>RESTRICTION</b>



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Type	Old Guidance	New Guidance	Notes
13 Closing-Per Diem	Max per diem interest may be credited to the borrower at closing: 7 days for purchase and 10 days for refinance.	A maximum of 7 days for all transactions.	<b>RESTRICTION</b>
14 CLTV	CLTV may need FHA Statutory Limit. CLTV cannot exceed 100% of the acquisition cost.	CLTV MAY NOT exceed FHA Statutory limit. Purchase Transaction = a HUD approved non-profit cannot cover the borrower's minimum required investment.	<b>RESTRICTION</b>
15 Collateral-Mixed Use	No more than 25% of the total floor space can be devoted to nonresidential use.	A minimum of 51% of the entire building square footage is for residential use.	<b>RESTRICTION</b>
16 Collateral-Shared Well	No guidance	Shared wells allowed only when lender evidences the connection to public or community water system is not feasible and property is not located in an area where local officials have determined public connection to be feasible.	<b>RESTRICTION</b>
17 Collateral-Update	A 1004D updating value must be dated within 120 days of closing.	Appraisal still must be re-certified prior to original appraisal expiration. Max age of appraisal is 240 days.	<b>ENHANCEMENT</b>
18 Credit - 30 D Account	No guidance	Not included in ratios if borrower has paid in full every month for past 12 months. If there were late payments in the last 12 months include 5% of the balance in the ratios. Lender must document sufficient funds to pay off the balance and close the loan.	<b>RESTRICTION</b>



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Type	Old Guidance	New Guidance	Notes
19 Credit -Waiting Period	No definition on waiting period for major derogatory credit.	Defines as 'from event date to the new loan case number order date'.	<b>ENHANCEMENT</b>
20 Credit-Authorized User	An authorized user account can be excluded from the borrower's ratios without obtaining 12 months canceled checks to prove another party is responsible for the debt.	Must include authorized user account in the DTI unless the borrower can document that the primary account holder has made all required payments on the account for the previous 12 months.	<b>RESTRICTION</b>
21 Credit-Collection/Judgment	Accounts, excluding medical, $\geq$ \$2,000 in aggregate will have a 5% payment of the totaled amount included in the DTI. If the client qualifies with the payment, then accounts do not need to be paid. If client does not qualify with the 5% payment, then the client must do either one of the following: <ul style="list-style-type: none"> <li>- Payoff total collections and charge-offs, excluding medical.</li> <li>- Provide proof of the lower payment from the creditor if the client participating in a payment arrangement with the creditor.</li> </ul>	Cumulative outstanding collection account balances of \$2,000 or greater must be paid off prior to close, or verify borrower has made payment arrangements and hit the DTI, or, use 5% of the balance in the DTI.  Medical collections and Charge-offs are not considered collections accounts and can be excluded.	<b>ENHANCEMENT</b>
22 Credit-Debt Paid by Business	Debt being paid by the business, must provide 12m cancelled and business returns show a business-related expense to the debt.	Debt being paid by the business, must provide 12m cancelled and business returns show a business-related expense to the debt. Must also show that the debt was considered in the cash flow analysis of the borrower's business.	<b>RESTRICTION</b>



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Type	Old Guidance	New Guidance	Notes
23 Credit-Deferred Account	Installment debt or Deferred student loans less than 12 months from the NOTE must be included in the DTI.	For all deferred student loans when no payment exists on the credit report, the greater of \$10 or 2% on student loans; the greater of \$10 or 5% of the installment debt must be included in the DTI. A statement is required.	<b>RESTRICTION</b>
24 Credit-Departing Residence	<p>If a client is converting their current primary residence to an investment property, proposed rental income may only be used to qualify if the client meets all of the following requirements:</p> <ul style="list-style-type: none"> <li>- Relocating with a new employer or being transferred by current employer to an area not within reasonable and locally recognized commuting distance AND can provide proof that a security deposit was received and deposited into the client's account.</li> <li>- OR, a new appraisal completed by an FHA approved appraiser (1004, 2055, or 1075) verifies the client has 25% equity in their existing current primary residence.</li> </ul>	If a client is converting their primary residence to an investment property, it must be 100 miles away, they must have a security deposit, one year lease, AND 25% equity in the converted property.	<b>RESTRICTION</b>
25 Credit-Living Rent Free	Living Rent Free - no address.	Letter from homeowner is required if the borrower is living rent free.	<b>RESTRICTION</b>
26 Credit-Non-Permanent	Non-permanent residence, a valid work visa is required.	Employment Authorization document (EAD) is required.	<b>RESTRICTION</b>
27 Credit-Non-Purchasing Spouse	Non-borrowing spouse - credit report is required.	Must obtain authorization to run credit and SSN validation is required.	<b>RESTRICTION</b>





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28 Credit-Re-Established	Re-established credit do not allow any new public records or collections within the last 24m for BK, 36m for foreclosure.	On re-established credit, we will allow 1 collection account with maximum of \$500. Account must be dated more than 12m prior to the application date.	ENHANCEMENT
29 Credit-Satisfactory Credit	Borrower has acceptable credit if: no late housing or installment debt and no major derogatory credit on revolving accounts.	A lender may approve a borrower if: acceptable payment history and no major derogatory credit on revolving accounts in the last 12 months. "Acceptable payment history" means: the borrower made all housing and installment debt payments on time for the previous 12 months, and there are no more than two 30-day late mortgage or installment payments in the last 24 months. "Major derogatory credit" means: payments made more than 90 days after the due date, or 3 or more payments made more than 60 days after the due date.	ENHANCEMENT
30 Credit-Short Sale	Short sale < 3years is allowed provided borrower can provide evidence he is current at time of short sale and was not taking advantage of the market.	Short sale < 3years is allowed provided there is no mortgage & installment late in the 12m prior to short sale date & application date. This is also a "manual" downgrade and must meet all manual requirements.	ENHANCEMENT
31 Family Member	The definition of family member includes: child; parent; or grandparent; spouse; legally adopted son or daughter, incl. a child who is placed with the borrower by an authorized agency for legal adoption; foster child; brother; stepbrother; sister, stepsister; uncle, and aunt. Note: A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a stepparent / grandparent or foster parent / grandparent	Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: Child, Parent or grandparent which include "step" or "foster". Domestic Partner or Spouse. Siblings to include "step" or "in-law". Aunts/Uncles. REMOVING Cousins.	ENHANCEMENT



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Type	Old Guidance	New Guidance	Notes
32 FHA-Relo	Borrower relocating, new property cannot be within reasonable commuting distance.	New property must be at least 100 miles away from the current residence.	<b>ENHANCEMENT</b>
33 Handling of Documents	Documents can't be transmitted from or through equipment of interested third parties.	Documents can't be transmitted from or through equipment of interested third parties or unknown parties.	<b>ENHANCEMENT</b>
34 Income - Alimony/child support	Alimony, child support income must have the full court documents/agreement. May be treated as reduction from gross income or as a monthly obligation.	For loans with AUS approval, do not need all pages of the divorce decree. For all "manual" underwrite, the full divorce decree with all pages will be required. Income may be treated either as reduction from gross income or as a monthly obligation. Obtain pay stubs covering at least 28 consecutive days to verify whether the borrower is subject to any order of garnishment. Calculate the monthly obligation from the greater of: the amount shown on the most recent decree or agreement establishing the obligation, or the monthly amount of the garnishment.	<b>ENHANCEMENT</b>
35 Income - OT & Bonus	General Rule – Overtime or bonus income must have been received for the past 2 years. Exception – Periods of less than 2 years may be acceptable if the lender can justify and document in writing why its use is acceptable. How to calculate the income: average over 2 years.	Overtime & Bonus - Must be earned for 2 years or more; Lender may consider if earned for 1 year if likely to continue. If less than 1 year, cannot be considered.	<b>ENHANCEMENT</b>
36 Income - VA Disability	VA Disability - must have either Disability benefit statement or award letter.	In addition to the award letter, the VA form 26-8937 (verification of VA Benefits) is required before income can be used.	



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Type	Old Guidance	New Guidance	Notes
37 Income -Employment	Borrower with < 12m employment with current employer, must document 2years work history with related training or experience.	If the borrower has MORE than 4 jobs in the past 12m will need to show required schooling or consistent increase in pay to qualify. No exception for union works her since Union is generally treated as one job since the jobs are secured by the union and hourly rate is steady.	<b>RESTRICTION</b>
38 Income:-Pension or 401K	No guidance	Use current amount if consistent. Fluctuating amounts require use of 2-year (or time of receipt, if less) average.	<b>ENHANCEMENT</b>
39 Income-Capital Losses	Capital Losses - not addressed previously.	Must be deducted from qualifying income.	<b>RESTRICTION</b>
40 Income-Commission	Commission income - a 2 year history is required.	Earned for at least 1 year in same or similar line of work and likely to continue. Calculate by subtracting unreimbursed business expenses from the lesser of: the average net commission earned over the past 2 years (or however long it's been earned) and the average income earned over the prior 1 year.	<b>ENHANCEMENT</b>
41 Income-Future Employment	Borrower must have offer letter at time of application, begin new job and can provide paystub PRIOR to close.	Future income no longer requires a payment provided there is an offer letter and employment starts prior to closing.	<b>ENHANCEMENT</b>
42 Income-Gap of Employment	Gap of more than 1 month, must be addressed.	Gap of less than 6 months require no explanation.	<b>ENHANCEMENT</b>
43 Income-Military	Military income - LES must reflect borrower has future continuance.	Active duty expiration date on the LES must be at least 12 month=s out from the NOTE date or a LOE stating the intention to re-enlist.	<b>RESTRICTION</b>



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Type	Old Guidance	New Guidance	Notes
44 Income-Non-Taxable	Non-taxable income = 25% grossed up.	Cap at 15% instead of 25%.	<b>RESTRICTION</b>
45 Income-Part-Time	Underwriter discretion allowed when received less than 2 years and likely to continue.	Two years of uninterrupted part-time income is required. Average the income over the prior 2 years, or Use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate.	<b>ENHANCEMENT</b>
46 Income-Rental	Rental income not on schedule E, need lease.	A 12m lease is required & FINAL HUD 1 to reflect date of acquisition.	<b>RESTRICTION</b>
47 Income-Self-Employed	YTD P&L and Balance sheet for all self-employed borrowers.	Scheduled C borrowers do not need to provide balance sheet.	<b>ENHANCEMENT</b>
48 Income-Self-Employed	The lender must establish the borrower's earnings trend from the prior two years using tax returns. Stable or increasing annual earnings are acceptable. Businesses showing a significant decline in income are not acceptable, even if the current income and ratios meet FHA guidelines. If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate income.	Income from a business with a greater than 20% decline in income over the analysis period is not acceptable. If using an AUS, the lender must downgrade to manual underwriting. If there has been a 20% or greater decline, the income is still deemed stable if: the reduction was the result of documented extenuating circumstances, the income has been stable or increasing for at least 12 months, and the borrower qualifies using the reduced income.	<b>ENHANCEMENT</b>





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Type	Old Guidance	New Guidance	Notes
49 Income-Temporary Reduction	No guidance	For borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, lenders 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.	<b>ENHANCEMENT</b>
50 Income-Vacancy Factor	Vacancy factor - depends on HOC center.	25%	<b>RESTRICTION</b>
51 Lien(s)-Tax, judgment	Judgments, liens and IRS tax liens must be paid prior to or at close. If the judgment is paid prior to close, a satisfaction of judgment is required. If the judgment is being paid at close, a payoff letter is required.	Allow tax lien to remain open with repayment plan, 3 months payments and approved repayment plan. Prepayment of payment is not allowed.	<b>ENHANCEMENT</b>



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Type	Old Guidance	New Guidance	Notes
52 <b>Manual Downgrade</b>	No guidance on undisclosed mortgage & declining business income.	The file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard – OR - additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage; •Disputed Derogatory Credit Accounts : 1,000 or more collectively. •Bankruptcy: Less than two years from discharge date to case number assignment date. •Foreclosure, Pre-Foreclosure Sale, Short Sale or Deed-in-Lieu: Less than three years from deed transfer to case number assignment date. •Mortgage Payment- Purchase or No cash out: If any mortgage trade line reflects the following in the most recent 12 months: 3 or more payments greater than 30 days -1 or more payments of 60 days PLUS one or more 30 day -1 payment greater than 90 days -•Mortgage Payment – Cash Out A current delinquency or Any delinquency within 12 months of cash assignment (SPECIAL NOTE: MUST MEET EXTENUATING CIRCUMSTANCE TO BE ELIGIBLE.) •Undisclosed mortgage debt. •Business income shows a greater than 20 percent decline.	<b>ENHANCEMENT</b>
53 <b>Proof of Occupancy</b>	Veteran must live in home full-time to consider a home their primary residence	Active Duty Veterans are allowed to finance their home as a primary residence, provided the Veteran’s spouse is occupying the home.	<b>ENHANCEMENT</b>
54 <b>Transaction-Cash Out</b>	Non-occupant co-borrower may not be used to help qualify. All borrowers on note must be occupants.	Non-occupant co-borrower may not be used to help qualify. (Omission of second sentence is addressed in FAQs and states that a non-occupant co-borrower may be added to note but may not be used to qualify.)	<b>ENHANCEMENT</b>



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Type	Old Guidance	New Guidance	Notes
55 Transaction-Cash Out LTV	Owned 12 months or more: 85% of appraised value . Owned less than 12 months: lesser of 85% of appraised value or original sales price.	Owned and occupied as principal residence for 12 months* prior to case number assignment date: 85% of appraised value. <i>*exceptions allowed for inheritance *</i>	<b>ENHANCEMENT</b>
56 Transaction-R/T Max LTV	97.75	97.75% if owner-occupied for previous 12 months or owner-occupied since acquisition if acquired within the last 12 months, at case number date. 85% if borrower has not occupied as principal residence for <12 months prior to case number date or, if owned less than 12 months, has not occupied the property for the entire period of ownership. 85% for all HUD-approved secondary residences	<b>ENHANCEMENT</b>
57 Transaction-Rate/Term Refinance	Rate and Term (refinance any mortgage – requires appraisal); Streamline Refinance with appraisal; Streamline Refinance with appraisal – Credit Qualifying; Streamline Refinance without appraisal; Streamline Refinance without appraisal – Credit Qualifying.	Rate and Term ( <i>refinance any mortgage – requires appraisal</i> ); Simple Refinance ( <i>refinance FHA-insured mortgage – requires appraisal</i> ); Streamline Refinance ( <i>no appraisal</i> ); Streamline Refinance – Credit Qualifying ( <i>no appraisal</i> ).	<b>ENHANCEMENT</b>
58 Transaction-Streamline NTB	Reduction in term alone does not constitute net tangible benefit.	Reduction in term alone constitutes net tangible benefit if the new rate does not exceed the current rate and payment (Principal + Interest + Monthly-Paid Annual MI) does not increase by more than \$50.	<b>ENHANCEMENT</b>
59 FICO Score	No guidance on LTV	FICO => 580 max LTV 96.5%; FICO < 580 max LTV 90%	<b>IMPAC MIN FICO SCORE 580</b>