MICHIGAN MUTUAL, INC.

YOUR HOME LOAN PARTNER

FHA Underwriting Guidelines

Table of Contents

Michigan Mutual Underwriting ___ ***9***

Philosophy ___ **9**

Program Description ___ **10**

Loan Requirements ___ **11**

Loan Restrictions (Ineligible) ___ **11**

LTV/CLTV Maximums ___ **11**

Purchase ___ 11

Rate/Term Refinance ___ 11

Cash Out Refinance ___ 11

Collateral Requirements ___ ***12***

Eligible Collateral ___ **12**

Ineligible Collateral ___ **12**

Appraisals ___ **13**

Appraiser Independence ___ 13

Approved Appraiser List ___ 13

Appraisal Order Process ___ 13

Borrower's Right to Receive Copy of Appraisal ___ 13

Appraisal Report Forms ___ 14

Appraisal Update and/or Completion Report Form 1004D ___ 14

When the Appraisal Update and/or Completion Report may be used ___ 14

When the Appraisal Update and/or Completion Report may not be used ___ 15

Appraisal Rebuttal Process ___ 15

Loan in Processing Stage ___ 15

Loan in Underwriting Stage ___ 15

Appraisal Portability ___ 15

Appraisal Validity Period ___ 16

Second Appraisal Requirements ___ 16

FEMA Declared Disaster Area Policy ___ **16**

Repair Escrows ___ **16**

Minimum Square Footage ___ **16**

Acreage ___ **17**

Age-Restricted Communities ___ **17**

Estimated Remaining Economic Life ___ **17**

Commercial/Industrial Zoning ___ **17**

Properties Listed For Sale within the Last 6 Months (Refinances) ___ **17**

Cash Out Transactions ___ 17

Rate/Term Transactions ___ 17

Attic ___ **18**

Crawl Space ___ **18**

Roof ___ **18**

Inspection and Life Expectancy ___ 18

Snow Covered Roof ___ 18

Multiple Parcels of Land ___ **18**

Property Seasoning ___ **19**

Refinance Transactions That Are Not Already FHA-Insured ___ 19

Determining "New" or "Existing" Construction ___ 19

Seller Seasoning (Purchases) ___ 19

Termite Inspections ___ **19**

Map of TIP (Termite Infestation Probability) Zones ___ **20**

Water and Sewage Systems Requirements 20
Distance Between The Well and the Septic System 20
Distance Sketch without a Well or Septic Report 21
Water System 21
Requirements 21
Restrictions 21
Individual Water Supply System (Well) 22
Shared Well 22
Community Well 22
Public Connection 23
Water Testing 23
Sewage System 23
Individual Sewage System (Septic) 23
Public Connection 23
Building on Own Land 24
Maximum Financing 24
LTV Calculation 24
Cash Back to Borrower 24
Minimum Investment 24
Documenting the Cost of the Subject Property 24
Three- and Four-Unit Properties 25

Condominiums *26*
Condominium Property Eligibility 26
Site Condominiums 27
Condominium Requirements 27
HUD Condominium Certifications/Questionnaire 27
FHA Concentration 28
When Condo Project Approval is Not Required 28

Credit *29*
Documentation Requirements 29
Verification of Institutional Mortgage History 29
Verification of Rental Payment History 29
Land Contract/Contract for Deed 29
Lease With Option to Purchase 29
Bankruptcy 30
Chapter 7 Bankruptcy 30
Chapter 13 Bankruptcy 30
Currently in Chapter 13 Bankruptcy Repayment (BK not discharged) 30
Discharged Chapter 13 30
Foreclosure/Deed-in-Lieu 30
Pre-Foreclosure Sales / Short Sales 30
Consumer Credit Counseling 31
Credit Score 31
Valid Credit Score 31
Borrowers/Co-Borrowers 31
Occupying 31
Non-Occupying Co-Borrowers 31
Disputed Accounts 32
Credit Inquiries within 90 Days of Report Date 32
Accounts with No Monthly Payment Reported 32
Open 30-Day Charge Accounts 32
Contingent Liability 32

Joint/Co-signed Debts by Applicants 32
Business Debt in Borrower's Name 33
Installment Debt 33
Projected Obligations 34
Obligations Not Considered Debt 34
Payment Plans 34
Subordinating a Lien 34
MMI In-file Credit Reports 35

Employment/Income *36*
Hourly or salaried employees 36
Overtime and Bonus Income 36
Second Jobs/Part-Time Income 36
Seasonal Employment 36
Union Employees 37
Unemployment Compensation 37
Commission Income 37
1099 Employees 37
Unreimbursed Business Expenses/Automobile Allowances 37
Self-Employed 38
Non-Taxable Income 38
Other Income 38
Social Security Disability Income 38
Social Security Income Received for a Child 38
Social Security Received for an Adult Child (18 or older) or Parent 39
Foster-Care Income 39
Short Term Disability / Workman's Comp 39
Maternity Leave 39
Projected Income 39
Rental Income 40
Documentation Requirements 40
Principal Residence Being Vacated in Favor of Another Principal Residence 40
Relocation 40
Sufficient Equity in Vacated Property 40
Three- and Four-Unit Properties 40

Assets *41*
Borrower's Own Funds to Close 41
Most Recent Two Month's Bank Statements 41
Verification of Deposit 41
HUD-1 from Sale of Current Residence 41
Cash Back on Purchases 41
Gift of Equity 41
Gift Funds 42
Gift Funds/Grants by Charitable Organizations 42
Collateralized Loans 42
Sale of Personal Property 43
Cash Saved at Home 43

Refinance Transactions *44*
Mortgage Payoffs 44
Cash-Out Refinances 44

Housing Payment History 44
Additional Underwriting and Eligibility Criteria 44
Rate & Term Refinances/No Cash Out 45
LTV Ratio applied to Appraised Value 45
Existing Debt 45
Additional Underwriting and Eligibility Criteria 46
Current Status of the Mortgage Being Refinanced 47
Borrower Occupancy of Former Investment Property 47
UFMIP Refunds 48
Refund Amount Selection 48
Refund Amount Calculation 48
Non-Occupying Co-Borrowers 49

Purchase Transactions 50
Residential Purchase Agreement 50
Earnest Money Deposit (EMD) 50
Seller Property Disclosure 50
Amendatory Clause 50
Real Estate Certification 50
For Your Protection Get a Home Inspection 51
Short Sales 51
Interested Party Contributions 51
Property Flipping 51
Seller's Date of Acquisition 51
Resale Date 51
Second Appraisal Requirements 51
Prior Sales 52
12-Month Chain of Title 52
Three- and Four-Unit Properties 52
Purchase Transactions with Identity of Interest 52
Non-Occupying Co-Borrowers 53

General Provisions 54
Citizenship 54
Permanent Resident Aliens 54
Non-Permanent Resident Aliens 54
Foreign Nationals 55
Additional Immigration Status 55
North American Free Trade Agreement (NAFTA) Workers 55
Diplomatic Immunity 55
Social Security Number 55
Legal Name 56
Nicknames 56
Married Names 56
Multiple Name Variations 56
Maximum Number of Financed Properties/Multiple Properties 56
Maximum Number of Borrowers Allowed 56
Age of Borrower 56
Power of Attorney 57
Rescission 57
Tax and Insurance Escrows 57
Title Companies/Settlement Agents 57
Delinquent Property Taxes 57

Paying Debt at Closing 57
Mortgage Payoffs 57
4506T Processing 58
Verifications 58
Age of Documents 58
Maximum Real Estate Commission 58
Non-Purchasing Spouse 59
Trusts 59
LDP/GSA Lists 59
Requirements for Requesting an FHA Case Number 60
FHA Case Number Assignment Cancellation 61
Reinstating FHA Case Numbers 62
CAIVRS 62
Assumptions 62
Divorce 62
Bankruptcy 62
Debt-to-Income Ratios 63
Mortgage Payment Expense to Effective Income (the Housing Ratio) 63
Total Fixed Payment to Effective Income (the Debt Ratio) 63
FHA Policy Limiting the Number of Mortgages per Borrower 64
Exceptions 64
Relocation 64
Increase in Family Size 64
Vacating a Jointly-Owned Property 64
Non-Occupying Co-Borrower 64
Compensating Factors 65

FHA 620 - 639 66
Option #1 66
Option #2 66
Option #3 66

FHA Streamline Refinance Guidelines 67
Maximum Mortgage Amount Calculation 67
UFMIP Refunds 68
Refund Selection 68
Refund Amount Calculation 68
Underwriting and Eligibility Criteria 68
Seasoning 68
Qualification Requirements 68
Funds to Close 69
TOTAL Scorecard/DU 69
Additional Underwriting and Eligibility Criteria 69
Condominium Project Approval 69
Net Tangible Benefit 70
Maximum Term 72
“No Cost” Refinances 72
Cash Back to Borrower at Closing 72
Adding Individuals to Title/Mortgage 72
Deleting an Individual from Title/Mortgage 72
Section 203K to Section 203B 73
Maximum Qualifying Ratios 73
CAIVRS 73

Documentation Requirements **74**
Application Documents 74
Credit Documents 74
Income Documents 74
Assets 74
FHA Documents 75
FEMA Declared Disaster Area Policy **75**

FHA 203(k) Streamline Limited Repair Program ***76***
Overview **76**
Required Forms **76**
Origination Forms 76
Closing Forms 76
Post Closing/Funding Forms 76
FHA 203k Maximum Mortgage Amount Calculation **77**
Explanation of Fees: **77**
Inspection Fee 77
Supplemental Origination Fee 77
Title Update Fee 77
Contingency Reserves 77
Eligibility Requirements **78**
Maximum Loan Amount 78
Maximum Loan-To-Value 78
Borrower's Minimum Cash Investment 78
Purchase Transactions 78
Refinance Transactions 78
Loan Terms 78
Mortgage Insurance 78
Qualifying Ratios 78
Property Types 79
Eligible 79
Ineligible 79
Eligible Borrowers 79
Occupancy 79
Underwriting 79
Streamline 203(k) Work Items **80**
Eligible 80
Ineligible 81
Acceptance of Contractors and Rehabilitation Criteria **82**
FHA Case Number Processing/Data Entry Requirements **82**
FHA Appraisal Requirements **83**
FEMA Declared Disaster Area Policy **83**
Refinancing **83**
Disbursements/Payments to Contractors **84**

FHA Repair Escrow Guidelines ***85***
Introduction **85**
Conditions for Repair Escrow **85**
Holdbacks Not Permitted **86**
Escrow Holdback Account Administration **86**
MMI Prior Approval **86**
Setting up Escrow Holdbacks **86**
Obligations of the DE Underwriter **87**
Obligations of the Loan Closer **87**

At Closing 87
Inspections 88
Work Completed 88
Obligations of the Government Insurer 89
After Closing 89
After Release of Escrow 89
Property Disposition Sales (HUD REOs) 90
Repair Escrow 90
Repair Escrow Financing 90
Escrow Account 90
Cost of Repairs 90
Completion of Repairs 90

Automated Underwriting Systems / TOTAL Scorecard ***91***
Approve/Eligible Risk Classification 91
Approve/Ineligible Recommendation 91
Refer/Eligible Classification 91
System Overrides and Manual Downgrades 92
Federal Eligibility 92
Delinquent Federal Debt 92
CAIVRS 92
Suspended and Debarred Individuals 92
Credit Issues 93
Previous Mortgage Foreclosure 93
Mortgage History 93
Bankruptcy 93
Disputed Accounts 93
Upfront Disclosure Policy 93

Underwriting Status/Decisions ***94***
Pre-Qualification 94
Incomplete 94
Submitted 94
Suspended 94
Approved with Conditions 94
Approved 94
Withdrawn 94
Declined 94
Clear to Close 94

FHA UFMIP Chart ***95***

FHA ARM Matrix ***96***

FHA High Limit Area Loans ***97***

Michigan Mutual Underwriting

Philosophy

Michigan Mutual underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Matrices (located on our website) and on our daily rate sheet. The Product Matrices will reference specific product features and requirements (such as maximum Loan-to-Value ratios and minimum credit score requirements, if any). This guide is intended to address unique underwriting situations.

Michigan Mutual uses Automated Underwriting Systems (AUS). Generally, Underwriters validate to the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. These guidelines are meant to serve as a guide for obtaining adequate documentation to enable us to satisfy those conditions.

Michigan Mutual underwrites a borrower's creditworthiness based solely on information that we believe is indicative of the applicant's willingness and ability to pay the debt they would be incurring. We prudently underwrite to the standards and guidelines of the US Department of Housing and Urban Development (FHA). Due to a multitude of factors involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits. Michigan Mutual's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile and the level of documentation provided and the property used to collateralize the debt.

Our commitment to fairness and equal opportunity is clear and unequivocal. The application of fair and consistent underwriting practices is mandated in the underwriting guidelines outlined in this guide. All loans considered for denial will be subject to a second level review prior to a final decision.

As our guidelines and processes are impacted by external market conditions, it will be necessary for us to reevaluate the guidelines in this manual from time to time. Occasionally, revisions will be made. As applicable, corporate written notifications and updates will be provided you and incorporated into these guidelines.

Back to Top

Program Description

The Federal Housing Administration (FHA) was established as a division of the U.S. Department of Housing and Urban Development (HUD) in 1934 to expand national homeownership opportunities, increase minority homeownership, make the home buying process less complicated and expensive, and keep existing homeowners from losing their homes. The FHA administers a variety of residential mortgage insurance programs.

Note: The underwriting information contained in this section is intended for use in conjunction with HUD/FHA Guidelines. Unless otherwise stated, all FHA loans must conform to applicable FHA one-to-four family housing requirements as well as federal, state, and local law compliance. All loans must be insurable by FHA and eligible for inclusion in pools of mortgage-backed securities fully guaranteed by the Government National Mortgage Association (Ginnie Mae). Michigan Mutual reserves the right to deny any loan which does not meet these guidelines/requirements. To the extent that any conflicts exist between the provisions set forth in the HUD/FHA guidelines and Michigan Mutual's guidelines described, then the guidelines described by Michigan Mutual will prevail.

All loans must be prudently underwritten by MMI and be of sound investment quality. Loans having serious credit and/or property deficiencies may be denied at the option of Michigan Mutual.

Back to Top

(Remainder of page intentionally left blank)

Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available.
- 3/1 ARM and 5/1 ARM available *see ARM Matrix
- Minimum 640 credit score (regardless of AUS decision), except in cases where the borrower meets the criteria for MMI's 620-639 Program.
- Minimum loan amount is $40,000.
- Maximum base loan amount of $417,000, subject to HUD county limits. FHA increased mortgage amounts over $417,000 are available in certain areas. *see FHA High Limit Area Loans criteria
- Maximum number of borrowers allowed on a loan is 4
- DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable.
- Loan must meet 90-day property flipping requirements.
- FHA 203(k) Streamline Limited Repair Program available *See 203(k) Repair Program Guidelines.

Loan Restrictions (Ineligible)

- Cash Out Refinances > 85% LTV
- FHA Section 8 Loans
- FHA Military Impact Loans
- FHA Loans to Non-Profit Organizations
- HOPE for Homeowners Program
- HUD 184 Program (Indian Reservations)
- FHA loans based solely on non-traditional credit history (borrower must have traditional credit with valid credit scores)
- FHA HECMs (Reverse Mortgages)
- Refinance loans that are restructured / in forbearance / short payoff loans

LTV/CLTV Maximums

Purchase

- 96.5% maximum LTV (Does not apply to purchase of HUD REO transactions that qualify for the $100 down program)
- 110% maximum CLTV with acceptable subordinate financing from government agencies

Rate/Term Refinance

- 97.75% maximum LTV/CLTV with acceptable subordinate financing

Cash Out Refinance

- 85% maximum LTV/CLTV for all cash out transactions

Back to Top

Collateral Requirements

To be eligible for FHA Insurance, a property is to be free of health and safety hazards and major structural problems.

Eligible Collateral

- Single Family Residence
- 2-4 Unit Dwellings (non-occupying co-borrowers not allowed for LTVs over 75%)
- Planned Unit Developments (PUDs)
- Townhouse / Rowhome
- Condominiums - see below requirements
- Log / Dome / Berm Homes, homes with Pier Foundations, Auxiliary/Accessory Dwelling Units, homes with extreme functional obsolescence (i.e. one bedroom). Must be common and typical for the area, and have like comparables
- Modular Homes
- Properties located in age-restricted communities. Must be common and typical for the area, and have like comparables

Ineligible Collateral

- New Construction Condos (effective with FHA Case Numbers assigned on/after 02/01/10)
- Condo Conversions
- New Construction homes located within a flood zone
- Mobile/Manufactured Homes
- Properties with Agricultural or Commercial/Industrial use
- Income-producing properties / Mixed Use Properties.
- Leasehold Properties (title must be held in Fee Simple interest)
- Properties currently listed for sale (refinances)
- Non-Owner Occupied Properties
- 2nd Homes
- Time-Share Units
- Construction Financing
- Properties vested in Life Estates / Trusts
- Multiple dwellings on a single parcel of land

Back to Top

Appraisals

Appraiser Independence

MMI follows HUD/FHA's Appraiser Independence requirements outlined in Mortgagee Letter 2009-28. Lenders (such as MMI) are now prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker (or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan)". Effective with FHA Case Numbers assigned on or after February 15, 2010, mortgage brokers must use the following procedures when ordering an appraisal assignment.

Approved Appraiser List

MMI does not use an approved appraiser list. Therefore, a copy of the appraiser's license and current Errors & Omissions insurance will be required. All appraisals will be underwritten on a case-by-case basis.

Appraisal Order Process

MMI requires that all FHA appraisals are ordered through one of our designated Appraisal Management Companies (AMCs). MMI provides links on our website to order appraisals.

1. Begin at the MMI website home page (www.michiganmutual.com) to order your appraisal through your assigned AMC.
2. Place FHA appraisal order in the name of Michigan Mutual, Inc. as required by HUD/FHA (enter all pertinent data including payment information). All appraisals must be paid for with a credit card at the time order is placed.
3. Upload any required documents such as the Purchase Agreement.
4. The AMC will schedule the appointment with the borrower or realtor as appropriate and complete the appraisal report.
5. Upon completion of the appraisal report, the AMC will contact the broker via email. It is the broker's responsibility to obtain the original report from the AMC and submit the original appraisal to MMI at the time of underwriting.
6. MMI will require certification from the AMC (to be included with the appraisal) that the appraisal was ordered in accordance with HUD/FHA Appraiser Independence Requirements.

Borrower's Right to Receive Copy of Appraisal

Under the Dodd Frank Act, the borrower is required to receive a copy of their appraisal at least 3 days prior to closing. Evidence of borrower's receipt (typically an email read receipt) is required.

Back to Top

Appraisal Report Forms

- Uniform Residential Appraisal Report (Form 1004): Used for single family properties, including those with an accessory unit, an individual unit in a PUD project, or a site condominium.
- Small Residential Income Property Appraisal Report (Form 1025): Used for 2-4 unit properties (including those that are located in a PUD project).
- Individual Condominium Unit Appraisal Report (Form 1073): Used for individual units in condominium projects.
- Market Conditions Addendum (Form 1004MC): Must be included in all FHA appraisals.
- Appraisal Update and/or Completion Report (Form 1004D): Required to report the completion of repairs and/or the satisfaction of requirements and conditions noted in the original appraisal report for existing properties and proposed/new construction. This form is also used to extend the validity period of an existing appraisal that is due to expire (the appraisal may only be extended one time and must be extended **before** the expiration date of the existing appraisal).
- Comparable Rent Schedule (Form 1007): Required on all investment property transactions, including multi-family properties in which the borrower will occupy one unit as a primary residence and regardless if rental income is used in the qualification.

Appraisal Update and/or Completion Report Form 1004D

HUD Mortgagee Letter 2009-51 announced that, effective with all new case number assignments on or after February 15, 2010, FHA is adopting the dual purpose form, Appraisal Update and/or Completion Report, **Form 1004D**.

When the Appraisal Update and/or Completion Report may be used

- To report the completion of repairs and/or the satisfaction of requirements and conditions noted in the original appraisal report for existing construction properties only. This form will be used in lieu of form HUD-92051 (Compliance Inspection Report). **This form may not be used for proposed/new construction** per the Mortgagee Letter (HUD-92051 – Compliance Inspection Report must be used for proposed/new construction).
- To extend the validity period of an existing appraisal **that is due to expire** for proposed or new construction that is incomplete, an additional 120 days from the effective date of the original appraisal report (for a maximum of 240 days). The appraisal may only be updated one time. The appraiser must include a completed Market Conditions Addendum (Fannie Mae Form 1004MC) for the subject property that is reflective of market conditions as of the effective date of the Appraisal Update Report. (This does not apply to HUD REO transactions – see MMI's HUD REO Guidelines).

Back to Top

When the Appraisal Update and/or Completion Report <u>may not</u> be used

- The property has declined in value.
- The building improvements that contribute value to the property cannot be observed from the street or public way.
- The exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated.
- When ordered by a lender who is not identified as an intended user in the original appraisal report (on transferred appraisal reports) unless the appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of the Uniform Standard of Professional Appraisal Practice (USPAP).
- On an appraisal that is expired.

Appraisal Rebuttal Process

Loan in Processing Stage

If the appraised value is such that processing of the loan cannot continue, it is the broker's responsibility to rebut the appraisal through the AMC's website. Ensure you provide supporting documentation such as comparables, recent listings, etc. **Under no circumstances are brokers allowed to directly contact the appraiser.**

Loan in Underwriting Stage

If an underwriter is requesting additional comparables (as well as any clarifications and/or corrections) from the appraiser as a requirement of loan approval, then the MMI underwriter will condition the loan appropriately. It is the broker's responsibility to communicate through the AMC. **Under no circumstances are brokers allowed to directly contact the appraiser.**

Appraisal Portability

HUD Mortgagee Letter 2009-29 addresses appraisal transfers and change of client name in appraisal reports. In transactions where a borrower has switched brokers/lenders, the first lender must, at the borrower's request, transfer the case to the second broker/lender, including the appraisal report. FHA does not require that the client name (lender name) or the borrower name on the appraisal be changed when it is transferred to another lender – case number transfer executes appraisal transfer. In accordance with the Uniform Standard of Professional Appraisal Practice (USPAP), the broker/lender **<u>is not</u>** permitted to request that the appraiser change the name of the client within the appraisal report. Michigan Mutual will accept the appraisal report in the name of the original Direct Endorsed (D.E.) Lender and/or borrower. It is the broker's responsibility to obtain and provide the initial appraisal completed for the transaction. It is MMI's policy that in limited circumstances where a second appraisal is completed, it will not be considered without prior review of the initial appraisal by MMI underwriting staff.

NOTE: *The cost of the second appraisal* ***may not*** *be charged to the borrower according to HUD/FHA guidelines. In addition, NO changes have been made to second appraisal policies tied to FHA Property Flipping requirements, and the appraisal must comply with HUD's Appraiser Independence Guidelines outlined in Mortgagee Letter 2009-28.*

Back to Top

Appraisal Validity Period

HUD Mortgagee Letter 2009-30 announced changes to the appraisal validity period for FHA-insured mortgages **effective for all case numbers assigned on or after January 1, 2010**. FHA appraisals will be valid for **120 days** for all property types: existing, proposed construction, and under construction (formerly 6 months for existing property that is complete and 12 months for proposed and under construction). See below FHA Adoption of Appraisal Update Form (1004D) regarding appraisal extensions. For appraisal validity on HUD REO transactions please see our HUD REO Guidelines.

If a sales contract is signed or the borrower is approved for a loan prior to the appraisal expiration date, the appraisal validity term may be extended by MMI for 30 days to allow for loan closing, subject to underwriter discretion. Approval of the borrower occurs when the DE underwriter signs the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). The loan must close within 150 days: 120 day validity period for original report plus 30 day extension if the appraisal has not been updated with an Appraisal Update Report (FNMA Form 1004D).

Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. A new appraisal is required for each transaction requiring an appraisal. Example: An appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if 120 days has not passed.

Second Appraisal Requirements

As required by FHA in cases of property flipping (see Purchase Transactions section for additional requirements). The cost of a second appraisal **cannot** be charged to the borrower.

FEMA Declared Disaster Area Policy

- If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D with photos will be required to recertify the value/condition of the subject property.
- Streamlines without Appraisals in declared disaster areas will require a full appraisal on FNMA form 1004 to be completed, if application is taken within 120 days of the disaster incident period end date.

Repair Escrows

MMI does allow repair escrows on FHA loans. See Repair Escrow Guidelines for specific eligibility criteria.

Minimum Square Footage

- All properties must have a minimum of 750 square feet.
- Exceptions will be considered for properties between 650 and 749 square feet if two thirds of the comparables also have <750 square feet.

Back to Top

Acreage

No maximum number of acres; however, property cannot have agricultural use, and comparables must have similar acreage.

Age-Restricted Communities

Certification from the HOA will be required, verifying:

- Community must be intended and operated for occupancy by persons 55 years of age and older
- At least 80% of the occupied units must be occupied by at least 1 person who is 55 years of age or older

Estimated Remaining Economic Life

The appraiser is required to indicate the estimated remaining economic life of the subject property as a single number or as a range (must be deemed acceptable for at least the term of the new mortgage).

Commercial/Industrial Zoning

While there are no zoning classification restrictions, the property must have residential use and all comparables must have similar influence. The Zoning Compliance must be Legal or Legal Non-Conforming. The highest and best use of the subject property as improved (or as proposed) must be the present use. Illegal properties are not eligible for FHA financing.

Properties Listed For Sale within the Last 6 Months (Refinances)

Cash Out Transactions

The MLS listing is required to be cancelled at least six months prior to the application date or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission.

Rate/Term Transactions

The MLS listing is required to be cancelled prior to loan application date. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission.

NOTE: *These properties pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.*

Back to Top

Attic

It is the homeowner/seller's responsibility to provide clear access to this area. FHA appraisers are required to observe the attic.

Crawl Space

There must be adequate access to the crawl space. At a minimum, the appraiser is required to make entry of the head and shoulders.

Roof

Inspection and Life Expectancy

The covering must prevent moisture from entering and provide reasonable future utility, durability and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility. The roof should have a remaining physical life of at least two years.

Snow Covered Roof

In areas of the country where the snow is likely to lay for more than a few days:

- The appraiser is required to make an extra-thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.
- If there is evidence of damage and/or leaks the appraiser is to condition for further inspection.
- If there is no evidence of damage and/or water leaks, the borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser/borrower without any warranty or guarantees from HUD/FHA and/or MMI.

In areas of the country where the snow **IS NOT** likely to lay for more than a few days, a clear roof inspection **by the appraiser** is to be obtained prior to closing.

Multiple Parcels of Land

Properties with multiple parcels are only acceptable if one of the following is criteria is met:

- All parcels were part of the original acquisition of the property as verified by the warranty deed.
- Any additional parcels included on title/appraisal are designated as non-buildable and cannot be legally split from the subject property. Appraiser must comment on this.

Back to Top

Property Seasoning

Refinance Transactions That Are Not Already FHA-Insured

Properties must be owned for a minimum 12 months in order to use the appraised value. For properties owned less than 12 months, the lesser of sales price/acquisition cost or appraised value will be used.

Determining "New" or "Existing" Construction

The date on the Certificate of Occupancy will determine whether a property is considered as "New Construction/Less than 1 Year Old" or "Existing Construction".

Seller Seasoning (Purchases)

Purchase transactions require the seller to be in title for a minimum of 90 days to be eligible for FHA financing.

Termite Inspections

Wood destroying insects and other organisms can cause serious problems in the wooden structural components of a house and may go undetected for a long period of time. MMI requires a termite inspection (existing properties and new construction) when:

- Concerns are noted or observed within the loan file, or
- Called for in the sales or purchase agreement, or
- The appraiser notes there is evidence of active infestation; or
- Required/mandated by State/Local jurisdiction

In all Atlanta Homeownership Center Jurisdictional States where properties are located in TIP Zones 1 & 2 (see TIP Zone map), the builder must complete the form HUD-NPCA-99-A, Subterranean Termite Protection Builder's Guarantee, providing a 1-year guarantee and indicating that one of the following accepted treatment methods was used:

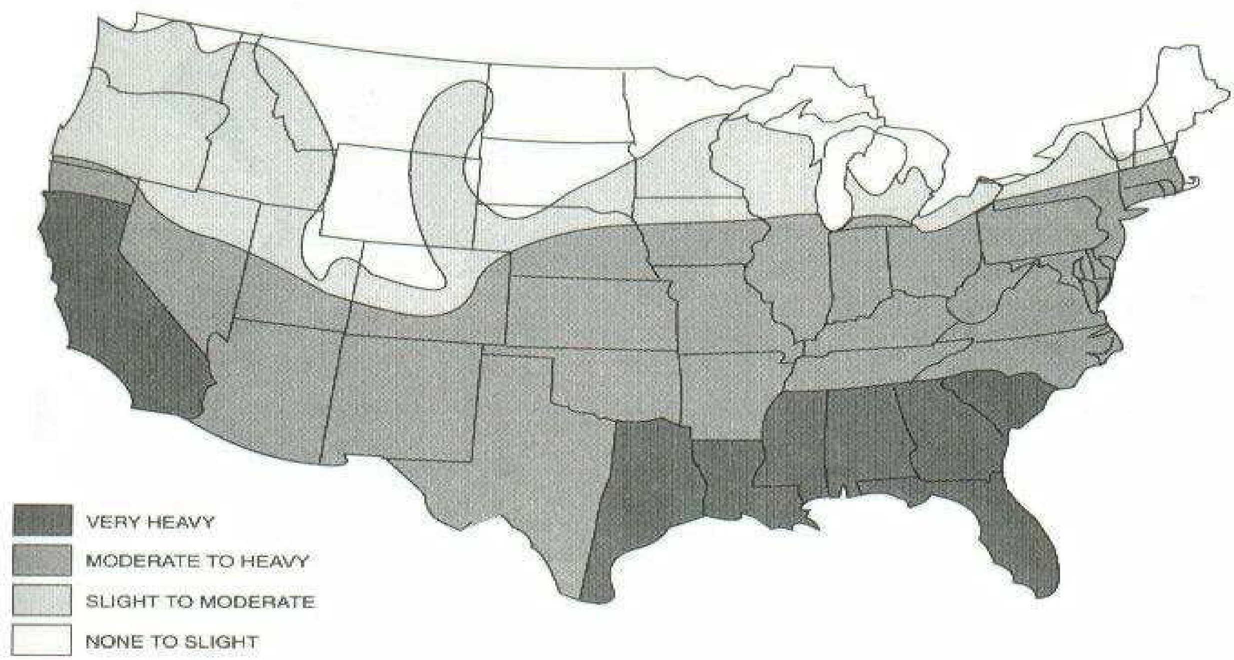
- Bait system, **OR**
- Wood (pressure preservative treated wood as outlined in ML 01-04) - Under "Type of Treatment", check the box titled "wood" and add statement "Complies with Mortgagee Letter 2001-04 for use of preservative treated wood", **OR**
- Soil (Chemical Soil treatment) - HUD-NPCA-99-B is to be used with form HUD-NPCA-99-A only if the property is treated with a soil termiticide. (The licensed pest control company is responsible for completing form HUD-NPCA-99-B, as appropriate, and providing it to the builder who is responsible for distribution. Please see ML99-03) **OR**
- Building using steel, masonry or concrete building components (with only minor interior wood trim and roof sheathing.) - Under "Type of Treatment" on form the builder is to add in the space to the right of the box titled "Soil" the statement "Masonry (steel, or concrete) construction, no treatment needed. Complies with ML 01-04."

The use of post-construction soil treatment where a chemical termiticide is applied only around the perimeter of the foundation is NOT acceptable.

Back to Top

***NOTE:** All chemical soil treatments, bait systems, and chemical wood treatments must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions.*

Map of TIP (Termite Infestation Probability) Zones



Water and Sewage Systems Requirements

Distance Between The Well and the Septic System

The following chart provides FHA's minimum distance requirement between the well and the potential source of contamination:

Source	**Minimum Distance (feet)**
Property line	10
Septic Tank	50
Septic Field	100
Sewer lines	50
Chemically poisoned soil	25
Dry well	50

Back to Top

Distance Sketch without a Well or Septic Report

Although the appraiser is not required to sketch the distance between the well and septic, the appraiser should be mindful of FHA's minimum distance requirements and provide the distance between the well and septic on the sketch addendum to the appraisal report. A copy of a survey would be helpful for the appraiser to make the final determination, but it is not required. If the appraiser is not able to provide this information, a septic inspection with sketch may be required.

> ***NOTE:*** *FHA has made an exception for the State of Michigan (based on state requirements): The minimum distance requirement between the well and the septic field is 75 feet.*

Currently, HUD allows for a lesser distance from the well to a soil-poisoned area (from 25 to 15 feet) or drain field (from 100 to 50 feet) if the well penetrates impervious strata of clay, hardpan or rock - in this case, the well drillers log is required. The well cannot be within 10 feet of any roadway or the property line of anything other than a single family residence (i.e. the well cannot be within 10 feet of a commercial, industrial or multifamily building).

Water System

Requirements

Each living unit must contain the following:

- Domestic hot water
- A continuing and sufficient supply of potable water under adequate pressure and of appropriate quality for all household uses
- Sanitary facilities and a safe method of sewage disposal

Restrictions

The property is Ineligible for an FHA-Insured loan if served by any of the following:

- Spring
- Lake
- River
- Cistern/Cesspool
- Dug Well
- Well located within the foundation walls

Back to Top

(Remainder of page intentionally left blank)

Individual Water Supply System (Well)

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If there is knowledge that the well water may be contaminated;
- If the appraiser suspects a problem and requires a water test;
- When the water supply relies upon a water purification system due to the presence of contaminants; or
- When there is evidence of:
    - Corrosion of pipes (plumbing)
    - Areas of intensive agriculture within ¼ mile
    - Coal mining or gas drilling operations within ¼ mile
    - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within ¼ mile
    - Unusually objectionable taste, smell or appearance of well water

Shared Well

A shared well is acceptable provided a "Shared Well Agreement" is executed by and obligates all of the parties involved (and their successors in title). ***A shared well can only service up to four properties.*** The legal instrument that is signed by all of the property owners must include language that supports:

- The quality of the water if found acceptable (documentation from the health department or local authority)
- The well meets local code
- The water supply has sufficient volume or capacity to service all of the properties

The Shared Well agreement must be fully executed (and either recorded or in recordable form), and provided in the loan submission package at time of underwriting.

Community Well

If the property is serviced by a community well system, FHA requires documentation such as the articles of incorporation or bylaws and/or Community Well agreement that will support the following:

- Service will be continuous and cannot be stopped and/or interrupted.
- The rate of the service and that it is reasonable
- Identify the property/borrowers have ownership rights
- The maintenance and expense of the well is properly managed
- That the well has been tested within the last year and meets local or state authority water quality requirements (the most recent test must be provided)

The Community Well agreement must be fully executed (and either recorded or in recordable form) and provided in the loan submission package at time of underwriting.

Back to Top

Public Connection
If the property has a well, and there is public water available to the property, a public connection is required unless the cost is considered prohibitive. If the cost to connect the well will exceed 3% of the estimated value of the property, then connection to the public system is not required.

Water Testing
If water testing is required, certification must be provided by one of the following:

- Health Authority Approval from the local municipality
- A licensed Water Lab

The water must meet the requirements of the Environmental Protection Agency (EPA) and the maximum contaminant levels established by the EPA will apply. The water must be checked for the following contaminants:

- Lead (first draw)
- Nitrate (as Nitrogen)
- Nitrite (as Nitrogen)
- Total Nitrate/Nitrite
- Total Coliforms
- Fecal Coliforms or E Coli

Sewage System

Individual Sewage System (Septic)
A Sewage System / Septic test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If the appraiser suspects a problem with the system and requires a test;
- Problems are common in the area; or
- If there is knowledge there is a problem with the system
- May be required in cases where the property has been vacant

If inspection is required, certification must be provided by one of the following:

- Health authority approval from the local municipality;
- A licensed sanitarian

Public Connection
If the property has a septic system, and there is public sewer available to the property, a public connection is required unless the cost is considered prohibitive. If the cost to connect the septic will exceed 3% of the estimated value of the property, then connection to the public system is not required.

Back to Top

Building on Own Land

Maximum Financing

A borrower is eligible for maximum financing when he/she:

- Acts as a licensed general contractor and is building a home on land that he/she already owns or acquired separately, and
- Receives no cash from the settlement

LTV Calculation

When building on a borrower's own property, the appropriate LTV limits are applied to the lesser of the

- Appraised value of the proposed home and land, **OR**
- Documented cost of the property, which includes
  - The builder's price, or sum of all subcontractor bids and materials
  - Cost of the land (if the land has been owned more than six months or was received as an acceptable gift, the value of the land may be used instead of its cost), **AND**
  - Interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property.

Equity in the land (value or cost, as appropriate, minus the amount owed) may be used for the borrower's entire cash investment. However, if the borrower receives more than $500 cash at closing, the loan is limited to 85% of the appraised value.

Cash Back to Borrower

Replenishing the borrower's own cash expended during construction is **not** considered "cash back", provided that the borrower can substantiate all out-of-pocket funds used for construction with cancelled checks and paid receipts.

Minimum Investment

In order to determine if a borrower has made the required 3.5% cash investment, or its equivalent in land equity when building on his/her own land, all such mortgage transactions must be summarized using only HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary.*

Documenting the Cost of the Subject Property

As a reminder, the sum total of the *documented* cost of the property must be recorded, including:

- The builder's price, or the sum of all subcontractor costs, materials, etc.
- The cost of the land or, if owned for more than six months or was received as an acceptable gift, its appraised value, and
- Interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property

Additionally, the calculated LTV ratio (which is to be the same value used when seeking a risk clarification from FHA's TOTAL), must reflect, as it does on other purchase transactions, the lesser of

- The sales price, **OR**
- The appraised value

Back to Top

Three- and Four-Unit Properties

Effective for all Case Numbers assigned on or after April 15, 2011, involving three- and four-unit properties:

- The borrower must have personal reserves equivalent to three months PITI+MI after closing on a purchase transaction. Reserves cannot be derived from a gift.
- The maximum mortgage amount for three- and four-unit properties is limited, so that the ratio of the monthly mortgage payment, divided by the monthly net rental income, does not exceed 100%.

Back to Top

(Remainder of page intentionally left blank)

Condominiums

If the word "condo" appears in the legal description, the property will be deemed a condominium.

Mortgagee Letter 2009-46B announced the **elimination of the Spot Loan Approval Process** for all FHA case number assignments **on or after February 1, 2010.** MMI has adopted the **HUD Review and Approval Process (HRAP)** as outlined in Mortgagee Letters 2009-46A and 2009-46B. MMI has not implemented the Direct Endorsement Lender Review and Approval Process (DELRAP). Refer to Attachment "A", The Condominium Project Approval Matrix (attached to Mortgagee Letter 2009-46B) for the list of documents that the project review package must contain. It is the broker's responsibility to submit the project review package to the HUD Homeownership Center (Attention Technical Support Branch) that serves the state where the subject property is located.

Link to Mortgagee Letter 2009-46A:
http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46aml.pdf

Link to Mortgagee Letter 2009-46B:
http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46bml.pdf

Link to Mortgagee Letter 2009-46A & 2009-46B Frequently Asked Questions:
http://www.hud.gov/offices/hsg/sfh/condo/faqs_condo.pdf

Condominium Property Eligibility

- Existing Construction only (construction of all units, common elements and facilities within the project must be 100% complete, as evidenced by issuance of the final Certificate of Occupancy. The Homeowners Association must also have been turned over).
- Projects must consist of 2 or more units.
- For condos, in addition to $1 million Liability Insurance / Fidelity Bond Coverage, MMI requires the borrower to purchase an HO-6 Insurance Policy ("Walls-In" insurance). This will insure the flooring, cabinetry, countertops, etc for the individual units. These items are not covered by the Association's Master Policy or by a borrower's Contents Policy. The dwelling coverage needs to reflect 20% of the appraised value of the subject property, at a minimum.
- Ineligible condominium property types include:
    - Proposed / New Construction
    - Conversions
    - Condominium Hotel ("Condotels")
    - Manufactured Home Condominiums
    - Co-Ops
    - Houseboat Projects
    - Multi-dwelling unit condominiums (i.e. more than one dwelling per condo unit)
    - Any/all projects not deemed to be used primarily as residential

Back to Top

Site Condominiums

Condominium project approval is not required for Site Condominiums. Site Condominiums are single family totally detached dwellings (no shared garages or any other attached building), encumbered by a declaration of condominium covenants or condominium form of ownership. Condominiums (including detached condominiums) that do not meet this definition will require project approval. The Uniform Residential Appraisal Report (Form 1004) will be required. The Individual Condominium Unit Appraisal Report (Form 1073) is no longer required, and the Condominium Rider to the Mortgage/Deed of Trust (prepared by MMI) must be fully executed at closing. Site Condominium comparables should be used in completing the appraisal report. If the appraiser uses comparables other than site condos they must provide an explanation in the appraisal report.

> ***NOTE:*** *The case number assignment must reflect the property as a condo (select site condo in the drop down – a condo ID is not needed/required). The case number suffix must be 734 for a condo, 731 if an ARM condo, or 804 if a subject is a condo using a 203(k) loan.*

Condominium Requirements

- To determine if a condominium project is FHA approved, refer to the following website: https://entp.hud.gov/idapp/html/condlook.cfm
- FHA Case Numbers may not be obtained until a condominium project is approved.
- If complex has been denied or withdrawn, the project is not eligible until the project is approved by HUD.

HUD Condominium Certifications/Questionnaire

A fully executed **Attachment C – Lender Certification for Individual Unit Financing** (see Mortgagee Letter 2009-46b) and the **MMI's FHA Condominium Homeowner's Association Questionnaire** (both are available on our website) are required at the time of initial loan submission. Per HUD it is the broker's (originator's) responsibility to certify (on Attachment C) that the unit in connection with the loan file has been verified to be in a project that to the best of their knowledge continues to meet all FHA condominium requirements. The certification must be on the broker's company letterhead, signed by a company authorized representative (signature stamps or electronic signatures are not acceptable). These forms will be required at time of initial loan submission. Please make sure the Questionnaire you submit is accurate and properly completed in its entirety, and fully executed by an authorized agent of the HOA. Any requests to provide updated and/or revised Questionnaires will be denied.

Back to Top

FHA Concentration

FHA will display the concentration information for each approved condominium development on the approved condominium listing, which can be found on both FHA Connection and on the public website at www.hud.gov. The concentration level will be based on case numbers assigned on units in a project; FHA will not issue new case numbers once the 30 percent concentration level (plus a small tolerance to accommodate for some fall-out) has been reached in any particular development.

HUD has extended its policy for case numbers assigned on or after **December 7, 2009 through June 30, 2011** to allow the FHA Concentration requirement to be increased temporarily to 50%. The FHA Concentration may be increased up to 100% if the project meets all of the basic condominium standards plus the additional items stated below:

- The project is 100% complete and construction has been completed for at least one year, as evidenced by issuance of the final certificate of occupancy for the last unit conveyed (new construction is not eligible for this exception);
- 100% of the units have been sold and no entity owns more than 10% of the units in the project (for fewer than 10 units, a single entity may own no more than 1 unit);
- The project's budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget.
- Control of the Homeowner's Association has transferred to the owners; and
- The owner-occupancy ratio is at least 50%.

For all new case number assignments on or after **July 1, 2011,** FHA concentration levels will revert back to 30% (projects consisting of three or fewer units may have no more than one unit encumbered with an FHA loan).

When Condo Project Approval is Not Required

- Streamline refinance transactions without an appraisal
- HUD REO transactions

Back to Top

Credit

Documentation Requirements

Verification of Institutional Mortgage History

A current payoff is required on all refinance transactions and one of the following:

- Verification of Mortgage dated within thirty days of closing.
- Mortgage history reflecting current on the credit bureau. This applies to subject property and any other properties owned. If mortgage is included as part of a bankruptcy or is otherwise not reported accurately on credit report, a payment history/ledger will be required.
- 12 months canceled checks (front and back) or 12 consecutive months bank statements showing payments.

Verification of Rental Payment History

One of the following will be required:

- VOR from an uninterested party
- 12 months canceled checks (front and back) or 12 consecutive months bank statements showing payments

Land Contract/Contract for Deed

- Copy of Land Contract
- Last 12 (or from inception of the contract) consecutive months canceled checks (front and back), or bank statements showing payments

Lease With Option to Purchase

- Copy of Lease w/Option Agreement
- Last 12 consecutive months canceled checks (front and back), or bank statements showing payments

NOTE: *All lease options are treated as purchase transactions. Any deposit put down at the time agreement was executed can be used toward the down payment, as long as a copy of the cancelled check can be provided as verification. Rent credit can be applied for the amount of rent paid over and above the standard market rents (as evidenced by a comparable rent schedule provided with the FHA appraisal).*

Back to Top

Bankruptcy

Chapter 7 Bankruptcy

MMI will deem the age of the bankruptcy by the discharge/dismissal date for Chapter 7. Chapter 7 BK's discharged less than 2 years will not be eligible. (Exceptions may be made and files will be reviewed on a case-by-case basis with documentable extenuating circumstances).

Chapter 13 Bankruptcy

Currently in Chapter 13 Bankruptcy Repayment (BK not discharged)

This does not disqualify a borrower, provided that one year of the payout period under the bankruptcy has elapsed and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). If a mortgage is included in the BK, the most recent 12 month mortgage history reflecting all mortgage payments have been paid within the month due and the mortgage pay off statement reflecting zero (0) delinquent interest is required. In addition, the borrower must receive permission from the BK court to enter into the mortgage transaction.

Discharged Chapter 13

If BK has been discharged within the last 12 months from date of loan application, MMI will require the complete BK documents (with all schedules and pages) and the complete payment history reflecting all required payments made according to the plan (must have minimum 12 months paid through the plan).

Foreclosure/Deed-in-Lieu

A borrower is not eligible for a new FHA-insured mortgage when during the previous three years he/she had real property that was foreclosed or has given a deed-in-lieu of foreclosure. The three years is calculated from the date of the foreclosure (as evidenced by the Sheriff's Deed) or Deed-In-Lieu to the date of the loan application. Exceptions to the three year period (but not less than 2 years) may be granted if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower (such as death of a primary wage earner), and the borrower has re-established good credit since the foreclosure. HUD does not consider the inability to sell a property or divorce extenuating circumstances. However, if a borrower's loan was current at the time of a divorce in which the ex-spouse was awarded the marital property (and all liability), and the property was later foreclosed on, that delinquency/foreclosure will not be considered in borrower's credit analysis.

Pre-Foreclosure Sales / Short Sales

Borrowers with previous short sales/short payoffs are treated the same as borrowers with a previous foreclosure, regardless if the borrower was current on their mortgage prior to the short sale.

Back to Top

Consumer Credit Counseling

- Acceptable on Approve/Eligible AUS findings with no additional documentation required.
- Loans that receive a Refer/Eligible (manual underwrites) will require a minimum 12 month payment history from the CCC Agency showing 0x30. In addition, a letter of authorization from the CCC Agency is required, allowing borrower to obtain new mortgage financing. CCC plan payment must be included in DTI calculation.

Credit Score

MMI requires a minimum credit score of 640. MMI will take the middle score from the three reporting credit repositories. If only 2 of 3 scores report, the lower of the 2 scores will be used. Borrowers with only 1 credit score may be considered with traditional credit depth. MMI does not underwrite loans for borrowers with only non-traditional credit.

NOTE: *At times, non-traditional credit may be requested / utilized to supplement and/or strengthen a borrower's credit profile.*

Valid Credit Score

Validating credit scores is subjective, and it typically requires 2-4 tradelines to validate a credit score depending on depth of credit, the type of tradeline, and length of time established. If you are in doubt, email our scenario help desk (scenarios@michiganmutual.com), submit your scenario through our website, or contact your Account Executive. Submission of a full credit package including all income and asset information for underwriter review may be required.

Borrowers/Co-Borrowers

Occupying

MMI requires a minimum 640 middle credit score for all borrowers.

Non-Occupying Co-Borrowers

Acceptable per FHA guidelines, and requires ***all*** borrowers to have a minimum 640 middle credit score (not allowed on the purchase of a HUD REO property, on cash–out refinance transactions, or on mortgages for 2- to 4-unit properties if the LTV exceeds 75%). See Non-Occupying Co-Borrower section of the guidelines for further information.

Back to Top

Disputed Accounts

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review. However, manual downgrade of a TOTAL Scorecard Approval/Accept recommendation is **not** required if the disputed account reflects all of the following on the credit report. The disputed account:

- Has a zero balance
- Is reflected as paid or resolved
- Is less than $500
- Is more than 24 months old, based on the date of the dispute

Credit Inquiries within 90 Days of Report Date

All credit inquiries dated within the last 90 days of report date must be addressed by the borrower(s). An itemized list detailing each inquiry must be provided (date, creditor, and outcome), along with a satisfactory explanation for each inquiry. A blanket statement addressing all inquiries at once is unacceptable. If any new debt was incurred, provide evidence of terms for inclusion in debt ratio.

Accounts with No Monthly Payment Reported

For revolving and installment debt, MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment, or if satisfactory documentation of the monthly payment amount cannot be provided. For revolving accounts, the greater of 5% of the balance or $10 will be used.

Open 30-Day Charge Accounts

MMI will use the greater of 5% of the balance or $10 as a monthly payment for qualification purposes.

Contingent Liability

Contingent liability exists when an individual will be held responsible for payment of a debt should another jointly obligated party default on the payment. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against him or her should the other party default, the full payment will be included in the DTI. If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower’s name only (individual accounts) will be included in the debt ratio. In cases of divorce, when the Judgment of Divorce indicates the ex-spouse has received the marital property and is liable for the debt, cancelled checks would not be required.

Joint/Co-signed Debts by Applicants

If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower’s name only (individual accts) will be included in the debt ratio.

Back to Top

Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, MMI must verify that the obligation was actually paid out of company funds and that this was considered in the cash flow analysis of the borrower's business.

The account payment DOES NOT need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of cancelled company checks), and
- The lender's cash flow analysis of the business took payment of the obligation into consideration

The account payment DOES need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligations was paid out of company funds
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense – and taxes and insurance, if applicable – equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan), it is reasonable to assume that the obligation has not been accounted for in the cash flow analysis
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

Installment Debt

Installment accounts (excluding leases) with less than 10 payments remaining on the balance may be excluded from the debt-to-income ratio (DTI). If the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing, MMI will include the debt in the DTI (particularly if the borrower will have limited or no cash assets after loan closing).

> ***NOTE:*** *Lease accounts are always included in debt ratio, regardless of number of months remaining on the lease agreement.*

Back to Top

Projected Obligations

If a debt payment such as a student loan is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI unless the borrower provides written evidence that the debt will be deferred for 12 months from loan closing. MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided. Similarly, balloon notes, “12 months same as cash”, etc. will be considered in the DTI.

Obligations Not Considered Debt

Obligations *not* to be considered debt (or subtracted from the borrower’s gross income) for qualifying purposes include federal, state and local income taxes, FICA or other retirement contributions such as 401k contributions (including 401k loans), union dues, child care expenses, open accounts with zero balances, voluntary deductions to one’s bank/investment account, and accounts on credit with an ECOA status that indicates the borrower is an Authorized User.

Payment Plans

MMI will accept payment plans (in lieu of payoff) for collections/charge-offs, tax liens, etc if the payment arrangement has been established for at least 12 months. However, if borrower has the ability to pay the account off with loan proceeds, account must be paid in full. Borrower must provide monthly repayment plan, acceptable 12 month payment history reflecting payments made according to plan with no history of late payments (0x30), and monthly payment must be included as a liability in qualifying ratios.

Subordinating a Lien

If a lien is being subordinated, MMI will require the following:

- Copy of the Existing Note or HELOC Agreement with terms of financing
- A fully executed subordination agreement prior to closing, reflecting accurate terms of loan
- If the credit line is being reduced with a borrower pay down, a fully executed Modification agreement is to be provided (only in cases where the line has to be paid down to meet HCLTV/CLTV requirements)
- Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 12 months and all payments have been paid as agreed.

CLTV cannot exceed 97.75% on Rate/Term and 100% on Streamline transactions. Maximum 85% CLTV on cash out transactions.

Back to Top

MMI In-file Credit Reports

In certain circumstances, MMI will pull a single-bureau, in-file credit report 10 days prior to closing. Any changes in payments or balances will require the liabilities to be updated, and the AUS must be rerun with the most current information available – loan must still receive an acceptable decision. If any derogatory credit is found since the date of the tri-merge credit used to underwrite the loan, a **new** tri-merge credit report must be pulled (by either the broker or MMI) and attached to the AUS findings so the delinquency can be factored into DU's decision. Instances that require an in-file credit report 10 days prior to close are:

- FHA 15yr term
- FHA ARM products
- FHA Jumbos
- Loans for brokers on the QIP list
- If credit report used to underwrite the loan exceeds 60 days at closing

Back to Top

(Remainder of page intentionally left blank)

Employment/Income

Generally borrowers must be employed for 2 years in the same line of work. MMI will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. **MMI will do a phone verification of employment on all loans within 10 days of closing.**

Hourly or salaried employees

Provide one of the following:

- Two most recent computer-generated pay stubs reflecting YTD income – must document one full month's earnings – and last two years W-2's.
- One most recent computer-generated pay stub reflecting YTD income – must document one full month's earnings – and a signed Written Verification of Employment.
- Non-computer generated or handwritten pay stubs require last two years W-2's and a signed Written Verification of Employment.

Overtime and Bonus Income

Overtime and bonus income can be used to qualify if the borrower has received this income for the past two years, the income stream has been consistent, and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of overtime and bonus income received for less than two years may be acceptable and will be considered on a case-by-case basis.

Second Jobs/Part-Time Income

Second Jobs/Part-Time Income can be used to qualify if the borrower has received this income for the past two years, the income stream has been consistent, and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of Second Job/Part-Time income received for less than two years may be acceptable and will be considered on a case-by-case basis.

Seasonal Employment

Seasonal income may be used to qualify the borrower, permitting:

- It can be verified that the borrower has worked in the same job (or the same line of seasonal work) for the past 2 years
- The borrower's employer can confirm that there is a reasonable expectation that the borrower will be rehired for the next season

Back to Top

Union Employees

Union employees who receive their compensation from multiple employers based on assignments through their local labor union are acceptable, and not deemed unstable. Income may be used to qualify the borrower providing

- The union provides a letter verifying the borrower is currently a member in good standing
- Most recent paystub is provided verifying borrower is currently employed
- W2 statements for all jobs in the last 3 years are provided, supporting a history of employment with the union

Unemployment Compensation

Unemployment income must be documented for a minimum of two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.

Commission Income

Commission income (including borrowers paid piece work/piece job, truckers paid per mile, etc.) can be used to qualify if the borrower has received this income for the past two years, the income stream has been consistent, and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of commission income received for less than two years may be acceptable and will be considered on a case-by-case basis (commission income earned for less than one year will not be considered effective income). In addition to normal employment documentation, copies of tax returns for the last two years are required and any Unreimbursed Business Expenses (see below) must be subtracted from the borrower's qualifying income prior to calculating the housing and debt-to-income ratios.

1099 Employees

Provide one of the following:

- Last two years tax returns and one computer generated pay stub no more than 30 days old at time of closing, showing year-to-date earnings.
- Last two years tax returns and a signed Written Verification of Employment no more than 90 days old at time of closing, showing year-to-date earnings.

Unreimbursed Business Expenses/Automobile Allowances

Unreimbursed Business Expenses from Schedule A / Form 2106 must be deducted from the borrower's qualifying income.

- Only the amount by which the borrower's automobile allowance exceeds the automobile expense may be used as income (the difference between the automobile allowance and the 2106 expense may be added to income if positive or must be treated as a liability if negative).
- The borrower's auto loan payment must be counted as a debt and may not be offset by the automobile allowance.

Back to Top

Self-Employed

- Same company ownership for the last 2 years
- Last two years tax returns and signed year-to-date profit and loss statement are required.

> ***NOTE:*** *A Profit & Loss Statement will be used to support a two year income average; however, will not be used for qualifying purposes.*

Non-Taxable Income

May be grossed-up by 125%. Examples of non-taxable income are as follows:

- Social Security
- Child Support
- Foster Care
- Military Allowances: Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), clothing allowances, hazard pay, rations allowance, combat pay, flight pay, overseas pay, etc.

> ***NOTE:*** *All of these income types require a minimum 3 year continuance to be used for qualifying.*

Other Income

Taxable benefits, which may **not** be grossed-up. Examples include:

- Pension (in most circumstances)
- Alimony

Social Security Disability Income

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter indicating the borrower has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
- Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter.

Social Security Income Received for a Child

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The child's Award Letter
- Birth certificate reflecting the child is ≤ 14 years old (if the child is 15 or older there is not a 3 year continuance of income).

Back to Top

Social Security Received for an Adult Child (18 or older) or Parent

Requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter reflecting the borrower as payee/guardian, indicating the adult child/parent has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
- Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter; and
- Legal Guardianship documents reflecting the borrower as legal guardian for the adult child/parent are required.

Foster-Care Income

Verify the foster care income with:

- Letter of verification from the organization providing the income; and
- Copies of the borrower's most recent 3 months bank statements confirming regular deposit of payments; and
- Most recent 2 years tax returns with all forms and schedules (must document a 2 year history of receipt).

Short Term Disability / Workman's Comp

Not eligible. No Exceptions.

Maternity Leave

Borrowers on maternity leave must be back to work as evidenced by a pay check stub with 30 days worth of earnings.

Projected Income

As a general rule, MMI does not close loans based on projected income. However, an exception may be made for a doctor, teacher, or other form of employment where income is guaranteed by a contract. In these circumstances, MMI may waive the requirement for a 30-day paystub prior to closing, providing it can be verified by MMI that the borrower has begun their employment with their contracted employer.

Back to Top

Rental Income

Documentation Requirements

- If property acquired in previous tax year, tax returns will be required for documentation of rental income.
- If property was acquired during the current tax year, a one year signed lease agreement is acceptable with evidence of security deposit received (cancelled check or bank statement verifying deposit). MMI will use the vacancy factor of 25% for all properties.

Principal Residence Being Vacated in Favor of Another Principal Residence

Rental income (reduced by the vacancy factor of 25% for all properties) on principal residence being vacated in favor of another principal residence may only be considered under one of the following circumstances:

Relocation
The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. In addition, evidence of receipt and deposit of the security deposit and/or evidence the first month's rent has been paid to the homeowner must be provided; or

Sufficient Equity in Vacated Property
The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by a current (no more than 120 days old) residential appraisal. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.

> ***NOTE:*** *If the borrower's current principal residence is listed for sale or pending sale, and he/she is purchasing a new residence, both the current and proposed mortgage payments must be used in qualifying the borrower for the new mortgage loan (rental income may not be used for qualifying).*

Three- and Four-Unit Properties

Net rental income for three- and four-unit properties is calculated using the following formula:

- The appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy
- Minus the greater of the
    - Appraiser's estimate for vacancies, OR
    - Vacancy factor used by the jurisdictional HOC.

> ***NOTE:*** *This net rental income calculation is used to determine the maximum loan amount. Borrowers must still qualify for the mortgage based on income, credit, cash to close, and projected rents received from remaining units. Projected rent may only be considered gross income for qualifying purposes. It cannot be used to offset the monthly mortgage payment.*

Back to Top

Assets

Borrower's Own Funds to Close
MMI follows AUS findings for acceptable documentation.

Most Recent Two Month's Bank Statements
When using most recent bank statements, large deposits must be explained and documented. MMI considers large deposits as any non-payroll deposit of $1000 or more. (Monies for closing to be supported by bank statement dated within 30 days of closing).

Verification of Deposit
When using Verification of Deposit, two month average balance must be reflected (current balance must show sufficient funds required). Large increases must be explained and documented with paper trail.

HUD-1 from Sale of Current Residence
Final HUD-1 from sale of current residence is considered acceptable documentation, providing it is dated within 30 days of loan closing.

Cash Back on Purchases
Not allowed; however, items the borrower has paid outside of closing (i.e. appraisal, homeowner's insurance) may be reimbursable through seller contributions at the time of closing. Borrower must provide satisfactory documentation of payment for these services prior to closing.

Gift of Equity
A gift of equity from a blood relative is acceptable (documentation of relationship may be required). Mortgage Payoff (if any) must reflect no more than 29 days delinquent at time of closing. Any history of major delinquencies (30 days or more) reflected on title or payoff will require additional information and may not be eligible. Spouse to Spouse purchases are not acceptable except in instances such as divorce, where legal documentation (such as a Divorce Decree) indicates the seller/spouse will be vacating the property.

Back to Top

Gift Funds

An outright gift for the borrower's investment into the transaction is acceptable if the donor is a relative, the borrower's employer, or a close friend with a clearly defined and documented interest in the borrower. The gift funds cannot be provided by any person or entity with an interest in the sale of the property, including the seller, real estate agent or broker, builder, loan officer or any other entity associated with the transaction. Evidence of relationship of donor must be acceptably documented. Transfer of funds must be documented from the donor to the recipient by a copy of the cancelled gift check and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. If gift made by Certified Check, obtain copy of Certified Check as well as a bank statement showing the withdrawal of funds from the donor's bank account and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. **Cash gifts are not allowed per FHA guidelines**. The file must also contain an FHA Gift Letter which can be found on the MMI website.

Gift Funds/Grants by Charitable Organizations

Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet FHA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

Collateralized Loans

Funds can be borrowed for the total required investment as long as satisfactory evidence is provided that the funds are fully secured by an asset. Such assets may include stocks, bonds, real estate (other than the property being purchased), etc.

In addition, certain types of loans secured against deposited funds, such as the cash value of life insurance policies, loans secured by 401(k)s, etc, in which repayment may be obtained through extinguishing the asset, do not require consideration of a payment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included as assets to close or otherwise considered as available to the borrower.

An independent third party must provide the borrowed funds. The seller, real estate agent, broker, lender, or other interested third party may not provide such funds. Unacceptable borrowed funds include signature loans, cash advances on credit cards, borrowing against household goods and furniture and other similar unsecured financing.

Back to Top

Sale of Personal Property

Proceeds from the sale of personal property (cars, recreational vehicles, stamps, coins, baseball card collections, etc) is an acceptable source of funds for the down payment, closing costs and reserves, provided the individual purchasing it is not a party to the transaction in any way. The following must be documented:

- The borrower's ownership of the asset
- The value of the asset as determined by an independent and reputable source. This may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.
- The transfer of ownership of the asset, as documented by a bill of sale and a copy of funds received from purchaser
- The borrower's receipt of the sale proceeds with a copy of the deposit slip and bank statement showing new balances

Cash Saved at Home

Borrowers who have saved cash at home and are able to demonstrate adequately the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage. To include such funds in assessing the homebuyer's cash assets for closing, the money must be verified -- whether deposited in a financial institution or held by the escrow/title company -- and the borrower must provide satisfactory evidence of the ability to accumulate such savings.

The asset verification process requires the borrower to explain in writing how such funds were accumulated (borrower must provide a budget), and the amount of time taken to do so. We will determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period during which the funds were saved, the borrower's spending habits, documented expenses and the borrower's history of using financial institutions. (All other factors being equal, individuals with checking and/or savings accounts are less likely to save money at home than an individual with no history of such accounts.)

Back to Top

(Remainder of page intentionally left blank)

Refinance Transactions

Mortgage Payoffs

All refinance transactions will require current payoff statements for all liens on title, reflecting a maximum of 59 days interest prior to closing. **MMI does not refinance loans that have been modified, have forbearance agreements in place, or with restructured/short payoffs.**

Cash-Out Refinances

If the subject property has been owned by the borrower for at least 12 months **preceding the date of the loan application**, the maximum base mortgage amount is 85% of the appraiser's estimate of value. If the subject property has been owned less than twelve (12) months preceding the date of the loan application the mortgage amount is limited to the lesser of 85% of the appraiser's estimate of value or 85% of the sales price of the property when acquired (or documented acquisition cost). The base mortgage amount may never exceed the geographical statutory limit (it is acceptable for the total loan amount to exceed the geographical statutory limit, but only by the amount of any new UFMIP).

Housing Payment History

The loan file must contain documentation that the borrower has an acceptable payment history (such as the credit report). The payment history is acceptable if the borrower:

- Is current on the mortgage being refinanced, and
- Has made all payments on the mortgage being refinanced within the month due for the previous 12 months.
- For mortgages with more than 6 months and less than 12 months of payment history, the borrower must have made all payments when due.
- Mortgages with less than 6 months of payment history are not eligible for a cash-out refinance.

Additional Underwriting and Eligibility Criteria

- Borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible.
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and are subject to 85% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required. Modified existing subordinate liens are acceptable and are not considered a new subordinate lien.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 85% CLTV. The borrower must qualify with the scheduled monthly payments.
- Non-Occupant Co-Borrowers are not permitted on cash-out refinance transactions.
- Property may not have been listed for sale a minimum of six months prior to the application date, or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These properties pose an increased risk to MMI; therefore, may be subject to additional documentation or limitations.

Rate & Term Refinances/No Cash Out

The maximum base mortgage is the lesser of 97.75% of the appraiser's estimate of value **or** the sum of the existing debt and related closing costs and prepaid expenses for the refinance as shown below. The base mortgage amount may never exceed the geographical statutory limit (it is acceptable for the total loan amount to exceed the geographical statutory limit, but only by the amount of any new UFMIP). See FHA UFMIP Chart.

LTV Ratio applied to Appraised Value

Multiply the appraised value of the property by 97.75%.

Existing Debt

Add together the amount of the existing first lien, any purchase money second mortgage, and/or any junior liens over twelve (12) months old, closing costs, prepaid expenses, and discount points (if any), and then subtract any refund of the UFMIP. If, in the last 12 months, the sum of the draws on a Home Equity Line of Credit (HELOC) exceeds the cost of documented repairs to the subject property by greater than $1,000, the borrower must bring the excess amount to closing, or the line of credit is not eligible for inclusion in the new mortgage. If neither of these options is viable, the HELOC may be included in the new loan, but it will have to be considered as a cash-out refinance.

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). In determining the existing debt as part of the mortgage amount calculation, accrued late charges and escrow shortages may be included. Fax Fees and delinquent interest **may never** be included.

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums, and any real estate tax deposits needed to establish the escrow account, regardless of whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

If the purpose of the new loan is to refinance an existing mortgage to buy out the interest of an ex-spouse or other party, the specified equity to be paid is considered property-related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree or settlement agreement must be provided to document the equity awarded to the ex-spouse or co-borrower.

If the property was acquired less than one year before the loan application and is not already FHA-insured, in addition to the calculations described above, the original sales price of the property also must be considered in determining the maximum mortgage. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount.

Back to Top

Additional Underwriting and Eligibility Criteria

- The mortgage being refinanced must be current for the month due. For example, a refinance of a mortgage anytime in March must have had the February payment made (borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible).
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and subject to 97.75% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 97.75% CLTV. The borrower must qualify with the scheduled monthly payments.
- At closing, the borrower may not receive cash back in excess of $500.
- Non-Occupant Co-Borrowers are allowed on No Cash-Out/Rate & Term Refinance transactions. A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan and purchase or refinance a primary home with FHA-insured financing (see Non Occupying Co-Borrower guidelines below). Non-Occupying Co-Borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy), and the occupying co-borrower must document sufficient income to make the mortgage payment even if the income cannot be used for qualifying purposes.
- Cosigners are treated the same as Non-Occupant Co-Borrowers (above) for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.
- If property has been listed for sale, the listing agreement must be cancelled prior to the loan application. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These properties pose an increased risk to MMI and therefore may be subject to additional documentation and/or limitations.

Back to Top

(Remainder of page intentionally left blank)

Current Status of the Mortgage Being Refinanced

Borrowers must be current on the mortgage being refinanced for the month due **prior** to the month in which they close the refinance, and for the month in which they close. *For example*, if the borrower is closing on April 8, 2011, the borrower must have paid the March 2011 payment within the month of March. The borrower must make the April payment by closing. The borrower has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing (in this scenario, the loan must close **and disburse** in April).

Borrower Occupancy of Former Investment Property

The table below describes policy guidance on the maximum mortgage amount available for borrowers who re-occupy their investment property securing the mortgage which is being refinanced.

Occupancy of Former Investment Property	**Eligible Financing**
12 months or more prior to the loan application date of the refinancing mortgage	Maximum Financing at the same level as an owner-occupant
Less than 12 months prior to the loan application date of the refinancing mortgage	Rate-and-term refinancing only (no streamline refinance allowed), with an LTV not to exceed 85%

Back to Top

(Remainder of page intentionally left blank)

UFMIP Refunds

Refund Amount Selection

On FHA to FHA refinances (including streamlines), the MIP Refund from the Netting Authorization will be selected based on the month of closing, not disbursement. For example, if a loan closes in June but does not disburse until July, the June MIP Refund will be credited back to the borrower at closing.

Refund Amount Calculation

On any refinance where the MIP refund exceeds the Upfront MIP required on the new loan, the overage will be refunded directly to the borrower from HUD so that the borrower will not be burdened with additional out-of-pocket expenses. The lesser of the MIP refund or the new upfront MIP should be subtracted from the unpaid principal balance before calculating the new mortgage amount.

For example: UFMIP credit is $2,785.23 (at previous 2.25%) which is greater than the new UFMIP of 1%.

To calculate the new mortgage amount, take the existing balance $126,540/1.0100 = $125,287.13 x new UFMIP of 1.00% = $1,252.87.

$125,287.13 + $1,252.87 = $126,540.00. Note that we are just refinancing the existing balance. In this case, HUD would refund the $2,785.23 directly to the borrower. If we deducted $2785.23 from our existing balance, the borrower would have to bring assets to close.

NOTE: *The UFMIP credit must be applied on all FHA to FHA refinances (including streamlines).*

Back to Top

(Remainder of page intentionally left blank)

Non-Occupying Co-Borrowers

A Non-Occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence. Maximum financing is available for borrowers related by blood, marriage, or law (such as spouses, parent-child, siblings, etc.), or unrelated individuals that can document evidence of a family-type, longstanding, and substantial relationship *not arising from the loan transaction.* If these conditions cannot be met the maximum mortgage amount is limited to 75% LTV. If a parent is selling to a child (or other family member where there is an Identity of Interest), the parent cannot be the co-borrower with the child (or other family member), unless the LTV is 75% or less. A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan, and purchase or refinance their primary home with FHA-insured financing. Non-Occupying Co-Borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy) and the occupying co-borrower must document sufficient income to make the mortgage payment even if the income cannot be used for qualifying purposes.

Cosigners are treated the same as non-occupying co-borrowers for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.

Back to Top

Purchase Transactions

Residential Purchase Agreement

All purchase transactions require this document to be executed by ALL parties. The current owner of record must execute as the seller of subject property. All borrowers on the loan application must sign the agreement. All sellers that sign the purchase agreement must be authorized by that entity.

Earnest Money Deposit (EMD)

The Earnest Money Deposit must be verified (deposit amount and source of funds) if the amount of the EMD

- Exceeds 2% of the sales price, or
- Exceeds $2000

***NOTE:** If the borrower is purchasing a home being sold under a short sale agreement, the EMD must be verified, regardless of amount.*

Seller Property Disclosure

A seller must disclose to a buyer all known material defects about the property being sold that are not readily observable. This disclosure statement is designed to assist the seller in complying with disclosure requirements and to assist the buyer in evaluating the property being considered.

***NOTE:** This disclosure is not required on bank / investor owned properties*

Amendatory Clause

FHA Amendatory Clause is intended to ensure that prospective homebuyers with FHA-backed loans receive important information in a timely manner about the house to be purchased. If buyers have not received information about the appraised value of the home they intend to buy, the buyers are not obligated to buy the home. The borrower (buyer) and seller must execute this document. Please refer to our website for a copy of this form.

***NOTE:** This disclosure is not required on bank / investor owned properties*

Real Estate Certification

This disclosure is to be signed by ALL parties involved in the transaction: borrower, seller, real estate agent(s), and broker(s). It certifies that the terms and conditions of the sales contract are true to the best of their knowledge. Please refer to our website for a copy of this form.

***NOTE:** This disclosure is not required on bank / investor owned properties*

Back to Top

For Your Protection Get a Home Inspection

HUD/92564-CN needs to be provided to the borrower. Evidence of this can be supported by a copy of the document within the disclosure/application package.

Short Sales

MMI will accept purchase transactions where the seller is selling the home under a "short sale" agreement with their current lender. MMI must be provided the fully executed short sale approval letter and the requirements set forth by the current lender must be met prior to closing. In addition, any Earnest Money Deposit (EMD) must be satisfactorily verified, regardless of amount.

Interested Party Contributions

An Interested Party Contribution (IPC) is a payment by the seller and/or another interested party (real estate agent, builder, developer), or a combination of parties, toward the borrower's costs to close.

The seller and/or third party may contribute up to 6% of the *lesser* of the property's sales price or the appraised value toward the buyer's closing costs, prepaid expenses, discount points, and payment of UFMIP.

> ***NOTE:*** *Contributions exceeding 6% are considered inducements to purchase, which require a dollar-for-dollar reduction to the* ***lesser*** *of the sales price or appraised value of the property before applying the appropriate LTV factor.*

Property Flipping

If a property is re-sold 90 days or fewer following the date of acquisition by the seller, the property is not eligible for an FHA-insured mortgage. MMI requires the seller to have owned the property for a minimum of 90 days from the deed transfer date.

Seller's Date of Acquisition

FHA defines the seller's date of acquisition as the date of settlement of the seller's purchase of that property

Resale Date

FHA defines the resale date as the date of execution of the sales contract by a buyer intending to finance a property with a FHA-insured loan.

Second Appraisal Requirements

A second appraisal may be required on properties with a significant increase in value within 91 to 180 days of seller's acquisition.

Back to Top

Prior Sales

Prior sales are to be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale, or the certificate of foreclosure on bank owned properties.

12-Month Chain of Title

The twelve month chain of title is to be evidenced by all deeds that affect the subject property in the last 12mos, reflecting the dollar amount(s) of the sale(s).

Three- and Four-Unit Properties

The borrower **must** have personal reserves equivalent to three months PITI+MI after closing on purchase transactions. Reserves **cannot** be derived from a gift.

Purchase Transactions with Identity of Interest

Identity of Interest transactions on principal residences are restricted to a maximum LTV of ratio of 85%. Identity of Interest is defined as a sales transaction between parties with family relationships or business relationships. However, maximum financing above 85% LTV is permissible under the following circumstances:

- A family member purchases another family member's home as a principal residence. If a property is sold from one family member to another and is the seller's investment property, the maximum mortgage is the lesser of either:
  - 85% of the appraised value, or
  - The appropriate LTV ratio percentage applied to the sales price, plus or minus required adjustments. (The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. Written documentation must be submitted to verify occupancy.)
- An employee of a builder purchases one of the builder's new homes or models as a principal residence.
- A current tenant purchases the property that he or she has rented for at least six months immediately predating the sales contract. (A lease must be submitted to verify occupancy.)
- A corporation transfers an employee to another location, purchases that employee's home, and then sells the home to another employee.

Back to Top

(Remainder of page intentionally left blank)

Non-Occupying Co-Borrowers

A Non-Occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence. Maximum financing is available for borrowers related by blood, marriage, or law (such as spouses, parent-child, siblings, etc.), or unrelated individuals that can document evidence of a family-type, longstanding, and substantial relationship *not arising from the loan transaction.* If these conditions cannot be met the maximum mortgage amount is limited to 75% LTV. If a parent is selling to a child (or other family member where there is an Identity of Interest), the parent cannot be the co-borrower with the child (or other family member), unless the LTV is 75% or less. A borrower may be a non-occupying co-borrower on a family member's FHA-insured loan, and purchase or refinance their primary home with FHA-insured financing. Non-Occupying Co-Borrowers cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy) and the occupying borrower must document sufficient income to make the mortgage payment even if the income cannot be used for qualifying purposes.

Cosigners are treated the same as non-occupying co-borrowers for qualifying purposes and are acceptable. However, they do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.

Back to Top

General Provisions

Citizenship

Citizenship of the United States is not required for eligibility. Borrowers must be one of the following: a U.S. Citizen, a Permanent Resident Alien, or a Non-Permanent Resident Alien. We will lend under the same terms and conditions for all three designations.

Permanent Resident Aliens

Non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS) are considered Permanent Resident Aliens. Lawful Permanent Resident Aliens must have any of the following:

- A legible copy of the front and back of the Permanent Resident Card / Alien Registration Card (USCIS Form I-551) otherwise known as a "Green Card". While the Green Card itself states "Do Not Duplicate" for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.
- A legible copy of the unexpired foreign passport that contains an unexpired stamp reading "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until (MM-DD-YY). Employment authorized".
- Any other evidence of permanent residency issued by the USCIS.

Non-Permanent Resident Aliens

Non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship and Immigration Services (USCIS) are considered Non-Permanent Resident Aliens. Lawful Non-Permanent Resident Alien status must have the following:

- A legible copy of a valid (unexpired), acceptable visa (a copy of valid work permit only is unacceptable) with a copy of the I-94 Arrival/Departure Record. The I-94 indicates the immigration status. In order for us to have the most recent and accurate property visa class, it is important to copy the Arrival/Departure Record and not just the visa since the Non-Permanent Resident Alien's status can change (for example from student to worker). The Visa must evidence one of the following visa classes:
  - A Series (A-1, A-2, A-3)
  - E-1
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H-1B, H-2A, H-2B, H-3
  - L-1
  - TN, TC – See NAFTA below

NOTE: *Non-Permanent Resident Aliens with Temporary Protected Status are not eligible*

Back to Top

Foreign Nationals

Foreign Nationals who have no lawful residency status in the U.S. are not considered to be Non-Permanent Resident Aliens and are not eligible for financing. Foreign nationals from Canada and Mexico who are working in the U.S. under the terms of NAFTA are eligible. Refer to North American Free Trade Agreement Workers below.

Additional Immigration Status

Loans to non-citizens who have been granted political asylum require underwriting to Non-Permanent Resident Aliens guidelines. Asylees and refugees must provide their Arrival and Departure Records (Form I-94) and copies of their employment authorization documents. A grant of asylum is for an indefinite period.

North American Free Trade Agreement (NAFTA) Workers

Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as Non-Permanent Resident Aliens when determining their eligibility. They must meet the standard requirements established for Non-Permanent Resident Aliens. NAFTA workers must provide a NAFTA Worker's Visa (see above TN and TC Visa classifications).

Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction **are not eligible**. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity will be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at www.state.gov/s/cpr/rls/dpl/.

Social Security Number

A valid Social Security Number is required for all borrowers. Evidence of social security number must be provided in each case file. Individual Tax Identification Number (ITIN) is not acceptable.

Back to Top

(Remainder of page intentionally left blank)

Legal Name
MMI requires the pertinent loan documentation (FHA Case Number Assignment, loan application, credit report and closing documentation) to be prepared in the borrower's legal name. In most cases the name reflected on the driver's license will be utilized to determine the borrower's legal name. However, in those instances where there is a variance between the driver's license and the Social Security card (or other documentation within the loan file), utilize the following examples for further guidance:

Nicknames
If the driver's license reflects Mike Smith and the Social Security Card (or other documentation within the loan file) reflects Michael Smith then the pertinent loan documentation must reflect the name Michael Smith.

Married Names
If a borrower has recently married or is married during loan processing, the new married name, if applicable, will be utilized for all pertinent loan documentation. MMI will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social security card. If Borrower Validation fails in FHA Connection due to this reason, MMI will order a third party Social Security Number verification.

Multiple Name Variations
If a borrower has multiple names / hyphenated variations, the name that appears on the social security card will be utilized for all pertinent loan documentation.

NOTE: *In all of the above cases, an AKA/FKA affidavit will be required at closing*

Maximum Number of Financed Properties/Multiple Properties
When multiple properties are owned, all mortgages must be current at time of closing. Also, if borrower is purchasing a new home (as owner occupied); however, is not selling current residence, MMI may consider the subject as non-owner occupied if the value of the subject is not greater than current residence (case by case). The borrower(s) can have no more than **four** properties financed including the subject property, and the maximum number of properties owned (financed or not) cannot exceed **ten**.

Maximum Number of Borrowers Allowed
MMI does not allow any greater than 4 borrowers on a single loan.

Age of Borrower
There is no maximum age limit for a borrower. The minimum age is 18.

Back to Top

Power of Attorney

MMI allows Powers of Attorney (POA) under the following criteria:

- Application, initial disclosures, and Purchase Agreement (if applicable) must be signed by **all** parties of the loan
- Subject property must be owner-occupied
- All signatures on the POA must be notarized, and the POA must be reviewed by an MMI underwriter prior to closing. Signatures on the POA must match the signatures in the file to MMI's satisfaction.
- The POA must be specific to the loan transaction with MMI, and include the full property address of the subject
- The title policy must not make any exceptions based on the use of the POA

Rescission

MMI will not waive a borrower's three-day right to rescind. No exceptions.

Tax and Insurance Escrows

Escrows for taxes and insurance are required on all FHA loans.

Title Companies/Settlement Agents

We do not use an approved title company list. However, we reserve the right to refuse any title company / settlement agent. A loan specific Insured Closing Protection Letter must be received prior to closing, along with specific wiring instructions

Delinquent Property Taxes

Any delinquent property taxes being paid at closing on a refinance transaction will be considered a cash-out transaction. Transactions with severely delinquent property taxes must be manually underwritten and are subject to underwriter discretion.

Paying Debt at Closing

MMI will not allow any debt to be paid at closing on a purchase transaction. Any debt being paid at closing on a refinance (other than existing mortgages on subject property) will be considered a cash-out transaction.

Mortgage Payoffs

All refinance transactions will require a current payoff statement for all liens on title, reflecting a maximum of 59 days interest prior to closing (restructured and/or short payoffs are not eligible on refinance transactions).

Back to Top

4506T Processing

MMI will require IRS transcripts for the most recent two tax periods including W-2s, 1040s and corporate returns (if applicable). MMI will accept IRS transcripts processed by the broker (see vendor links on our website). If transcripts are not provided, MMI will process the transcripts and the fee will be charged to the borrower on the HUD-1 at closing. It is the responsibility of the broker to properly disclose this fee for income verification to each borrower appropriately on the Good Faith Estimate.

Verifications

Verification forms (VOEs / VODs / VORs, etc) must pass directly between the broker and the provider without being handled or transmitted by any third party or using any third party's equipment. Verifications must be addressed to the employer or financial institution and may not be directed to an individual (such as may be directed to Account Verification Department or Human Resources but not to John Doe). No document used in the processing or underwriting of a loan may be handled or transmitted by or through the borrower, a real estate agent or any other interested third party to the transaction. The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify their sources (e.g., contain the names of the borrower's employer or depository/investment firm). The document must contain all headers/footers. Fax transmissions must clearly identify the source and a printed web page also must show its uniform resource locator (URL) address as well as the date it was printed.

Age of Documents

Credit document expiration dates are listed below unless the nature of the document is such that its validity for underwriting purposes is not affected by being older than the number of prescribed days (e.g. divorce decrees, tax returns).

- Credit Report: 90 days
- Paystub: 30 days
- Written VOE: 90 days
- VOD/Bank Statement: 30 days if using for funds to close (60 days allowed if only using for reserves
- VOR/VOM: 30 days
- Appraisal: 120 days
- Title Commitment: 90 days

Maximum Real Estate Commission

Any aggregate real estate commission cannot exceed 8% of the sales price of the subject property. Any portion of the real estate commission that exceeds 8% will be considered a seller concession and will be deducted from the sales price (for underwriting purposes) prior to calculating the LTV. Cumulative fees, including but not limited to real estate marketing fees, finder's fees, referral fees, auction fees, consulting fees or assignment of sale fees will be included in the 8%.

Back to Top

Non-Purchasing Spouse

On a purchase transaction, a non-purchasing spouse (or any other party) ***may*** appear on the security instrument or otherwise take title to the property at loan settlement. On a purchase or refinance transaction, if required by state law (dower right/homestead states), in order to perfect a valid and enforceable first lien, the non-purchasing spouse may be required to sign either the security instrument or documentation (usually, the mortgage/deed of trust, Truth-In-Lending and Notice of Right to Cancel) evidencing that he or she is relinquishing all rights to the property. If the non-purchasing spouse executes the security instrument for such reasons, he or she is not considered a borrower for our purposes and need not sign the loan application.

Where there are non-purchasing spouses who sign security instruments relinquishing their rights to the property pursuant to applicable state laws, these non-purchasing spouses do not have to sign the mortgage note. Signing the security instrument for such purposes does not make the non-purchasing spouse a co-borrower.

Except for the obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state or the property to be insured is located in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report that complies with the FHA requirements must be obtained for the non-purchasing spouse in order to determine the debt-to-income ratio.

Trusts

MMI will allow a property currently vested in a Revocable Living Trust to be deeded out of the trust at closing, and into the individual borrower’s name. This is not to be done prior to closing. Title should reflect a requirement for a deed from the trust to our borrower(s); and reflect the mortgage to be recorded in the individual borrower’s name.

It must be clear (obvious) that the borrower refinancing is the trustee of the Trust. If this is not clear, we will need to obtain a copy of the Certificate of Trust to verify this. We **do not** want a copy of the trust.

LDP/GSA Lists

MMI will examine HUD’s Limited Denial of Participation (LDP) list and the U.S. General Services Administration’s “List of Parties Excluded from Federal Procurement and Non-procurement Programs” (GSA), and document this review on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). The LDP and GSA must be checked on all loans, including FHA Streamline Refinance Loans. If the name of the borrower, seller, listing or selling real estate agent, or loan officer appears on either list, the application is not eligible. The LDP list may be checked by going to www.hud.gov, and the GSA list by going to http://www.epls.gov, or both may be checked by logging onto FHA Connection.

Back to Top

Requirements for Requesting an FHA Case Number

- Case numbers can only be requested for an active loan application with a valid property (cannot be ordered for fictitious properties or properties that are “to be determined”).
- MMI is now required to certify at the time of requesting a case number that we have an active loan application for the subject borrower and property.
- The borrower’s name and social security number are to be provided for all borrowers for FHA existing and new construction (i.e. proposed construction and existing construction less than one year old).

Back to Top

(Remainder of page intentionally left blank)

FHA Case Number Assignment Cancellation

Generally speaking, case numbers will remain with the property. Should a sale fail to close, the lender should update the borrower information if originating a new loan for subsequent purchasers, or transfer the case number to a new lender (if requested). Case numbers will not be canceled to facilitate obtaining a new appraisal prior to its expiration.

A cancellation request, specifying the reason for cancellation and including any supporting documentation, must be faxed to the appropriate HOC to close outstanding files and cancel an FHA Case Number if:

- An appraisal has not been completed and the borrower will not close the loan as an FHA loan, OR
- The FHA mortgage insurance will not be sought, OR
- The appraisal has already expired.

Case Numbers are no longer able to be cancelled via FHA Connection. Each state and its HOC jurisdiction can be found at http://www.hud.gov/offices/hsg/sfh/hoc/hsghocs.cfm. If MIP funds have been paid, a refund of all monies paid must be requested once the cancellation has been processed.

Beginning April 18, 2011, FHA systems will automatically cancel any uninsured case number where there has been no activity for 6 months (previously, case numbers were automatically cancelled at 13 months) since the last action except for:

- Loans where an appraisal update has been entered, and/or
- Loans where the Upfront Mortgage Insurance Premium (UFMIP) has been received.

Last action includes:

- Case numbers assigned,
- Appraisal information entered
- Firm commitment issued by FHA,
- Insurance application received and subsequent updates, and
- Notice of Return and resubmissions

Last action **does not** include updates to borrower names and/or corrections to property address. For example, making changes to the number of borrowers on the loan will not reset the 6 month timeframe for automatic cancellation.

To prevent automatic cancellation of case numbers for which mortgage insurance will be sought (for closed loans), lenders must enter appraisal information, successfully transmit the insurance application, etc.

NOTE: *This automatic cancellation is applicable to case numbers assigned prior to April 18, 2011. In addition, in situations where duplicate case numbers are issued, in order to obtain mortgage insurance, MMI will cancel one of the case numbers and not wait for automatic case number cancellation.*

Back to Top

Reinstating FHA Case Numbers

Case numbers that were automatically cancelled, including case numbers for condominium units, will not be re-instated unless:

- MMI provides evidence that the subject loan closed prior to cancellation of the case number, such as a HUD-1 Settlement Statement, or
- MMI provides documented evidence to HUD that not reinstating the case number causes an undue hardship to the borrower that is unrelated to recent changes to premiums and underwriting requirements.

CAIVRS

HUD's CAIVRS is a Federal government-wide repository of information on those individuals with delinquent or defaulted Federal debt and on those for whom a payment of an insurance claim has occurred. The broker must obtain a CAIVRS for all borrowers via FHA Connection and document the findings on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible except as described below. Exceptions to this rule may be granted under the following situations:

Assumptions

If the borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted, the borrower is eligible, provided he/she can prove the loan was not in default at the time of the assumption.

Divorce

A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. A mortgage history must be provided to evidence the mortgage was paid as agreed prior to the divorce or legal separation. However, if a claim was paid on a mortgage in default prior to the divorce, the borrower is not eligible.

Bankruptcy

When the property was included in a bankruptcy that was caused by documentable extenuating circumstances beyond the borrower's control (such as the death of the principal wage earner or serious long-term uninsured illness), the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. The borrower must have demonstrated a documented ability to responsibly manage his/her financial affairs. Additionally, documentation must be provided that the borrower’s current situation indicates that the events that led to the bankruptcy are not likely to recur. An elapsed period of less than two years, but not less than 12 months may be acceptable.

Back to Top

Debt-to-Income Ratios

Ratios are used to determine whether the borrower can reasonably be expected to meet the expenses involved in home ownership, and otherwise provide for the family. Two ratios must be computed:

Mortgage Payment Expense to Effective Income (the Housing Ratio)

If the total mortgage payment (principal and interest, escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) on a manually underwritten mortgage does not exceed 31% of the gross effective income, the relationship of the mortgage payment to income is considered acceptable. Manually underwritten loans exceeding 31% may be acceptable if compensating factors (see below) are documented within the loan file. Typically, for borrowers with limited recurring expenses, greater latitude is permissible on this ratio than on the total fixed payment ratio (DTI).

Total Fixed Payment to Effective Income (the Debt Ratio)

If the total of the mortgage payment and all recurring charges does not exceed 43% of the gross effective income, the relationship of total obligations to income is considered acceptable. A ratio exceeding 43% may be acceptable if compensating factors (see below) are documented within the loan file.

Back to Top

(Remainder of page intentionally left blank)

FHA Policy Limiting the Number of Mortgages per Borrower

FHA will only allow the borrower to have one (1) FHA-insured mortgage. There are certain situations in which FHA will allow a borrower to obtain an additional mortgage with FHA-insured financing. Considerations in determining the eligibility of a borrower for one of the exceptions below include:

- The length of time the borrower has owned their current residence; and
- The circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage.

In all cases other than those listed below, the borrower is not eligible to acquire another FHA-insured mortgage until he/she has either:

- Paid off the FHA-insured mortgage on the current residence, or
- Sold the current residence

Exceptions

Relocation

A borrower may be eligible to obtain another FHA mortgage without being required to sell an existing property with an FHA-insured mortgage if the borrower is relocating to an area not within a reasonable commuting distance from the current principal residence. Please note, the relocation need not be employer-mandated to qualify for this exception.

Increase in Family Size

A borrower may be eligible to obtain another FHA mortgage without being required to sell an existing property with an FHA-insured mortgage if the number of **legal** dependents increases to the point that their present house no longer meets the family's needs. The borrower must provide satisfactory evidence:

- Of the increase in dependents and the current property's failure to meet the family needs, and
- The LTV ratio based on the outstanding mortgage balance and a current appraisal equals 75% or less. If it does not, the borrower must pay down the balance to 75% LTV or less.

Vacating a Jointly-Owned Property

A borrower may be eligible for another FHA mortgage if he/she is vacating a residence that will remain occupied by a co-borrower such as in the case of a divorce situation (the final Divorce Decree must be provided)

Non-Occupying Co-Borrower

A borrower may be qualified for an FHA-insured mortgage on his/her own principal residence even if he/she is a non-occupying co-borrower with a family member on the family member's primary residence (documentation the borrower is a Non-Occupant Co-Borrower is required).

Back to Top

Compensating Factors

Compensating Factors that may be used to justify an approval of a mortgage loan with ratios exceeding the benchmark guidelines are listed below. Any compensating factors used to justify mortgage approval must be supported by documentation and listed on the FHA Loan Underwriting and Transmittal (HUD-92900-LT 5/2008):

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
- The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives documented compensation or income not reflected in the effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial documented cash reserves (at least 3 months worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the asset must be liquid or readily convertible to cash absent retirement, death or job termination (only 60% of the vested balance of a 401(k) / retirement account may be used). Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves. Assets such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Gifts funds that remain in the borrower's account following closing, subject to proper documentation, may be considered as cash reserves when the loan application is scored through Total Scorecard.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations and the income was not "grossed up").
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment (yet has not secured new employment), is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The availability of such possible employment must be documented in the loan file.

Back to Top

FHA 620-639

MMI offers an FHA product for 203(b) loans with credit scores from 620-639. The following restrictions will apply when taking advantage of the lower credit score requirements. All other standard FHA Underwriting Guidelines apply. All options require a 30yr fixed rate program, and **all loans must receive a DU Approve/Eligible recommendation**.

Option #1

This option features a higher back-end ratio with a verifiable housing payment history.

- **Maximum LTV** Standard LTVs apply
- **Maximum DTI** 50% back-end ratio
- **Maximum Loan Amount** $417,000 base. High Limit Areas not eligible.
- **Loan Purpose** Purchase or Refinance
- **Property Type** Single family residence only
- **Occupancy** Owner-occupied
- **Funds to Close** Must be borrower's own funds. Gift funds not allowed.
- **Housing Payment History** 12 months Management VOR or Cancelled Checks 0x30
- **Maximum Cash Out** $25,000 cash in hand (refinances only)

Option #2

This option features a slightly lower back-end ratio, but does not require housing payment history.

- **Maximum LTV** Standard LTVs apply
- **Maximum DTI** 45% back-end ratio
- **Maximum Loan Amount** $417,000 base. High Limit Areas not eligible.
- **Loan Purpose** Purchase or Refinance
- **Property Type** Single family residence only
- **Occupancy** Owner-occupied
- **Funds to Close** Must be borrower's own funds. Gift funds not allowed.
- **Housing Payment History** Lives with family / Private VOR acceptable with 2 months PITI
- **Maximum Cash Out** $25,000 cash in hand (refinances only)

Option #3

This option features a 90% LTV purchase with no required reserves after closing and gift funds permitted.

- **Maximum LTV** 90%
- **Maximum DTI** 45% back-end ratio
- **Maximum Loan Amount** $417,000 base. High Limit Areas not eligible.
- **Loan Purpose** Purchase
- **Property Type** Single family residence only
- **Occupancy** Owner-occupied
- **Funds to Close** Gift funds allowed from a qualified donor
- **Housing Payment History** Lives with family / Private VOR acceptable with no reserves
- **Large Deposits** All deposits over $500 must be sourced

NOTE: *Funds to close and reserve requirements cannot be met with the assets of a non-occupant co-borrower.*

FHA Streamline Refinance Guidelines

MMI requires streamline refinance transactions to fully credit and income qualify. At this time, MMI is only offering streamlines **without appraisals**. Please see MMI's FHA Underwriting Guidelines for requirements on rate/term refinances.

Maximum Mortgage Amount Calculation

The maximum FHA insurable mortgage is the outstanding principal balance minus the applicable refund of the UFMIP plus the new UFMIP (subject to HUD/FHA County limits).

Take the amount of the outstanding principal balance on the existing FHA-insured first lien and then subtract any refund of the UFMIP and add the new UFMIP. Closing costs, prepaids and discount points, if any, ***may not*** be included in the new mortgage. If the borrower has agreed to pay closing costs, prepaids and discount points, the assets to pay these costs must be verified.

The amount of the outstanding principal balance may include the interest charged by the servicing lender when the payoff is not received on the first day of the month (as is typically assessed on FHA-insured mortgages) but may not include delinquent interest, fax fees, late charges or escrow shortages.

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums and any real estate tax deposits needed to establish the escrow account regardless whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

NOTE: *The appraised value reflected on the Refinance Netting Authorization must be used to determined LTV/CLTV as well as the remaining monthly MIP term and in order that the TIL is calculating the monthly payment stream accurately.*

Back to Top

(Remainder of page intentionally left blank)

UFMIP Refunds

Refund Selection

On FHA to FHA refinances (including streamlines), the MIP refund from the Netting Authorization will be selected based on the month of closing, not disbursement. For example, if a loan closes in June but does not disburse until July, the June MIP refund will be credited back to the borrower at closing.

Refund Amount Calculation

On any refinance where the MIP refund exceeds the Upfront MIP required on the new loan, the overage will be refunded directly to the borrower from HUD so that the borrower will not be burdened with additional out-of-pocket expenses. The lesser of the MIP refund or the new upfront MIP should be subtracted from the unpaid principal balance before calculating the new mortgage amount.

For example: UFMIP credit is $2,785.23 (at previous 2.25%) which is greater than the new UFMIP of 1%.

To calculate the new mortgage amount, take the existing balance $126,540/1.0100 = $125,287.13 x new UFMIP of 1.00% = $1,252.87.
$125,287.13 + $1,252.87 = $126,540.00. Note that we are just refinancing the existing balance. In this case HUD would refund the $2,785.23 directly to the borrower. If we deducted $2785.23 from our Existing balance the borrower would have to bring assets to close.

NOTE: *The UFMIP credit must be applied on all FHA to FHA refinances (not just streamlines).*

Underwriting and Eligibility Criteria

Seasoning

On the date of the FHA Case Number Assignment:

- The borrower(s) must have made at least six payments on the FHA-insured mortgage being refinanced,
- At least six full months must have passed since the first payment due date of the refinanced mortgage, and
- At least 210 days have passed from the closing date of the mortgage being refinanced. FHA Connection will not issue a Case Number Assignment until this time has elapsed.

If any of the above criteria are not met, the loan is not eligible for a streamline refinance (may be underwritten as a standard rate/term loan).

Qualification Requirements

All streamlines will be credit/income qualified.

Back to Top

Funds to Close

Borrowers are required to provide evidence of sufficient funds to close.

TOTAL Scorecard/DU

Effective with case numbers assigned on 4/15/11 and after, HUD has rescinded Mortgagee Letter 2010-19. Brokers may not use Desktop Originator/eMagic on Streamline Refinances (including credit/income qualifying). These transactions will now be manually underwritten, and as such, manual underwriting documentation will apply. MMI will pull a Case Query on new Streamline submissions with Case Numbers on/after this date to verify the loan has not been run against TOTAL Scorecard.

Loans with case numbers assigned prior to 4/15/11 may be run through an AUS (DU/eMagic) on streamline refinance transactions. DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable. Although all loans will continue to be credit/income qualified, MMI will generally validate to the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. Processed 4506Ts for the last 2 years are still required regardless of AUS findings, and may be provided by the broker.

Additional Underwriting and Eligibility Criteria

- The mortgage being refinanced must be current for the month due. For example, if the borrower is closing in April, the March payment must have been made within the month of March, and the April payment must be made by closing. The borrower has the option to make the April payment at the beginning of the month, or may include the April payment in the payoff amount at closing (as long as the loan disburses in April also).
- No 30-day or greater mortgage late payments in the most recent 12 months will be allowed. If the loan is seasoned less than 12 months, the mortgage payment history must show no 30-day or greater mortgage late payments since the inception of the loan.
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding, but subordinate to the FHA-insured mortgage, with a maximum combined loan-to-value (CLTV) ratio of 100%. For streamline refinances without an appraisal, the CLTV is based on the original appraised value of the property (see refinance netting authorization). If the subordinating second lien is a HELOC, the maximum accessible credit line must be subordinated and used to calculate the CLTV.
- The mortgage being streamlined must be FHA-insured as evidenced by an FHA Connection Case Query on the current mortgage.
- FHA Secure to Streamline is not eligible for a streamline refinance (must be done as a standard rate/term refinance).
- The borrower(s) cannot have more than four properties financed including the subject property.

Condominium Project Approval

Does not apply to streamlines without appraisals. If approval of a condominium project has been withdrawn, FHA will insure only streamlines without appraisals for that project.

Back to Top

Net Tangible Benefit

It must be determined that there is a Net Tangible Benefit to the borrower as a result of the streamline refinance transaction. Effective with all Case Numbers assigned April 15, 2011 and after, a Net Tangible Benefit is defined as:

- A 5% reduction to the P&I of the mortgage payment plus the annual MIP; **or**
- Refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage.

This new guidance will allow borrowers who can reduce their P&I and MIP by 5% to do a streamline refinance, even if they have an increase in taxes and insurance, because borrowers must pay taxes and insurance regardless of whether they refinance. This will allow more mortgagors to qualify for a streamline refinance, increasing their ability to repay their mortgages.

Reducing the term of the mortgage, in and of itself, is not a Net Tangible Benefit. Also, when refinancing to a hybrid ARM, the new mortgage will be treated as a fixed rate for net tangible benefit purposes. The table on the following page defines the permissible minimum thresholds in different refinance situations, and outlines what is new and existing guidance.

Back to Top

(Remainder of page intentionally left blank)

To From	Fixed Rate	One-Year ARM	Hybrid ARM
Fixed Rate	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the fixed rate mortgage (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)
One-Year ARM	New interest rate no greater than **2 percentage points** above the current interest rate of the ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the ARM (**existing guidance**)
Hybrid ARM <u>During</u> Fixed Period	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)
Hybrid ARM <u>During</u> Adjustable Period	New interest rate no greater than **2 percentage points** above the current interest rate of the Hybrid ARM (**existing guidance**)	Reduction of at least **5 percent** of P&I and MIP (**new guidance**)	New interest rate at least **2 percentage points** below the current interest rate of the Hybrid ARM (**existing guidance**)

Back to Top

For FHA Case Numbers assigned **prior to April 15, 2011**, Net Tangible Benefit is defined as:

- Fixed Rate to Fixed Rate - The new total mortgage payment is 5% lower than the total mortgage payment for the mortgage being refinanced. Total mortgage payment includes principal, interest, taxes and insurances, homeowners' association fees, special assessments and all subordinate liens.
- ARM to ARM - The new total mortgage payment is 5% lower than the total mortgage payment for the mortgage being refinanced. Total mortgage payment includes principal, interest, taxes and insurances, homeowners' association fees, special assessments and all subordinate liens.
- 203K to 203b - The new total mortgage payment is 5% lower than the total mortgage payment for the mortgage being refinanced. Total mortgage payment includes principal, interest, taxes and insurances, homeowners' association fees, special assessments and all subordinate liens.
- ARM (One-Year) to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points (2%) above the current rate of the one-year ARM.
- Hybrid ARMs (3/1, 5/1, etc.) to Fixed Rate: The total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent (20%).
- Reduction in Term/Fixed Rate to Hybrid ARM: For transactions that include a reduction in the mortgage term or fixed Rate to Hybrid ARM (3/1, 5/1, etc.), that loan must be underwritten and closed as a FHA to FHA rate & term (no cash-out) refinance transaction (cannot be underwritten and closed as a streamline transaction).

Maximum Term

The maximum term is limited to **the lesser of**:

- The remaining term of the existing mortgage plus 12 years, or
- 30 years

"No Cost" Refinances

"No cost" refinances in which the borrower receives a Lender Credit to defray the borrower's closing costs and/or prepaid items **are permitted**.

Cash Back to Borrower at Closing

At closing, the borrower may not receive cash back in excess of $500.

Adding Individuals to Title/Mortgage

Individuals may be added to title/mortgage on a streamline refinance and must credit qualify.

Deleting an Individual from Title/Mortgage

All remaining borrowers must credit/income qualify.

Back to Top

Section 203K to Section 203B

- All work must be complete, there must be a fully executed Certificate of Completion, and the rehabilitation escrow account must have been closed with a final release (as evidenced by a case query/case status from FHA Connection or Neighborhood Watch).
- The Upfront MIP and monthly (annual) MIP will be applied to the new loan.

NOTE: *This is also applicable to Condominiums*

Maximum Qualifying Ratios

Effective with Case Numbers assigned on or after April 15, 2011, MMI will allow ratios up to 31%/43% (per manual underwriting guidelines), which may be exceeded with compensating factors. For Case Numbers assigned prior to April 15, 2011, MMI will accept ratios as determined by AUS with an Approve/Eligible. For Refer/Eligible loans, maximum ratios of 31%/43% apply; however, may be exceeded with compensating factors.

CAIVRS

A CAIVRS check **is** required for all borrowers.

Back to Top

(Remainder of page intentionally left blank)

Documentation Requirements

All Streamlines are credit/income qualified. The below documentation **must be provided** at time of submission to underwriting (see FHA Streamline Refinance Submission Form found on our website)

Application Documents

- FHA Loan Underwriting Transmittal Summary (HUD 92900-LT).
- Uniform Residential Loan Application (URLA), fully completed.
- FHA Addendum to URLA (HUD 92900-A)
- DO/DU/eMagic findings, if applicable

Credit Documents

- Tri-merged credit report for all borrowers. Borrower(s) must have a minimum middle credit score of 640 (non-traditional credit is not allowed)
- Mortgage payment history (if not provided on credit report)
- Mortgage payoff statement reflecting the mortgage is current. *MMI must have this in order to calculate the new mortgage amount – loans **cannot** be underwritten without the payoff statement
- Copy of the original Note for the current mortgage to verify the P&I payment (needed to determine Net Tangible Benefit (per guidance effective with Case Numbers assigned April 15, 2011 and after), the borrowers, and the terms/conditions of the mortgage being paid off. If the current Note cannot be provided, similar documentation with the same information must be provided, such as a mortgage statement.
- Evidence of social security number for all borrowers.

Income Documents

Manual underwriting guidelines apply effective with Case Numbers assigned April 15, 2011 and after, and for Refer/Eligible AUS decisions prior to April 15. For Approve/Eligible AUS decisions on Case Numbers assigned prior to April 15, 2011, income documentation required is determined by AUS findings. A fully executed 4506T is always required to obtain the most recent 2 years W2s and 1040s, and may be processed by the broker (if not, MMI will process and charge accordingly).

Assets

Manual underwriting guidelines apply effective with Case Numbers assigned April 15, 2011 and after, and for Refer/Eligible AUS decisions prior to April 15. For Approve/Eligible AUS decisions on Case Numbers assigned prior to April 15, 2011, asset documentation required is determined by AUS findings.

Back to Top

FHA Documents

- Evidence LDP/GSA lists were checked to verify all parties associated with the transaction are not listed.
- Evidence of previous FHA Case Number (required to order the new Case Number Assignment)
- For TPOs that do not have their DE Approval, MMI will obtain:
  - FHA Case Number Assignment *MMI must have an active loan for the current borrower, with a valid property address (can no longer request Case Number Assignments on TBD properties)
  - CAIVRS Number
  - Refinance Authorization.

> ***NOTE:*** *The appraised value reflected on the Refinance Netting Authorization* ***must*** *be used to determine LTV/CLTV. This will also ensure that the TIL is calculating the monthly payment stream accurately.*

FEMA Declared Disaster Area Policy

Streamlines without Appraisals in declared disaster areas will require a full appraisal on FNMA form 1004 to be completed, if application is taken within 120 days of the disaster incident period end date.

Back to Top

(Remainder of page intentionally left blank)

FHA 203(k) Streamline Limited Repair Program

Overview

The Department of Housing and Urban Development has developed a limited repair program, designated as the Streamline(k) Limited Repair Program, to augment its existing 203(k) program. The 203(k) program has been the primary tool of the Federal Housing Administration (FHA) for providing insured mortgage financing for the purchase of single-family properties in need of rehabilitation. The Streamline(k) program is a modification of the 203(k) program to facilitate purchase transactions in which the property needs minor rehabilitation work, as identified in a pre-purchase home inspection or the FHA appraisal. The Streamline(k) program is intended to assist homeowners with basic repairs costing from a minimum of $5,000 up to a maximum of $35,000 (Total Rehabilitation Cost line 14 of 203k Max Mortgage Worksheet). The mortgage amount will allow for acquisition of the property and up to $35,000 in loan proceeds to be applied toward repair/rehabilitation of the property as detailed below.

Required Forms

These forms are in addition to normal required FHA forms/disclosures

Origination Forms

Loan cannot be underwritten without these forms. The 203(k) forms and all 203(k) related exhibits, such as work plan estimates, bids, contractor approval documentation, etc. must be included with the credit package at the time of initial submission or loan will be suspended:

- Borrower's Identity of Interest Form
- Homeowner/Contractor Agreement (must be fully executed)
- Streamlined(k) Maximum Mortgage Worksheet – Form HUD-92700
- 203(k) Borrower's Acknowledgement – Form HUD-92700-A
- Self Help Agreement Form (must be executed prior to a clear to close)

Closing Forms

- Rehabilitation Loan Agreement
- Rehabilitation Loan Rider to the Mortgage/Deed of Trust
- Self Help Rehabilitation Loan Agreement

Post Closing/Funding Forms

- Request for Acceptance of Changes in Approved Drawings & Specifications – Form HUD-92577 (required in the event of needed changes after closing/funding)

Back to Top

FHA 203(k) Maximum Mortgage Amount Calculation

Use the Streamline(k) Maximum Mortgage Worksheet – Form HUD-92700 to calculate the mortgage amount. Expenses that may be included in the total amount of the improvements, with a minimum repair amount of $5,000 and not to exceed the $35,000 limit, are inspection fees, building and other permits, the supplemental origination fee, title update costs and the amount of any contingency reserve required.

Explanation of Fees:

Inspection Fee

One final inspection will be ordered prior to the final draw request by the servicing lender. One inspection fee is required to be included at $100.00.

Supplemental Origination Fee

For a Streamline(k) mortgage, a supplemental origination fee equal to the greater of $350.00 or 1.5% of the cost of the improvement project may be collected from the borrower for the rehabilitation portion of the mortgage. These monies will be held by MMI.

Title Update Fee

One title update will be required and will be ordered by the servicing lender upon receipt of the final draw request to ensure title is clear of any liens. The cost of one title update to be included is $50.00.

Contingency Reserves

Contingency Reserves are additional reserves that are kept in the event of cost overruns. Contingency Reserves will be required as follows:

- Properties built in 1959 or prior will require **20%**.
- Properties built between 1960 and 1978 will require **15%**.
- Properties built in 1979 and forward will require **10%**.
- Bank owned/HUD owned/Company owned (LLC, etc.) transactions will require a minimum **15%**. If plumbing repairs are required and if the transaction is bank owned/HUD owned/Company owned (LLC, etc.), regardless of age of the property, **20%** will be required.

Back to Top

(Remainder of page intentionally left blank)

Eligibility Requirements

Maximum Loan Amount
Varies by County. Check HUD website at **https://entp.hud.gov/idapp/html/hicostlook.cfm**

Maximum Loan-To-Value
The maximum loan-to-value is based on the lesser of:

- The sales price of "as is" appraised value plus the borrower paid repairs minus sales concessions; or
- 110% of the "as completed" appraised value
- For refinances: if the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount

NOTE: *See Appraisal Requirements below.*

Borrower's Minimum Cash Investment

Purchase Transactions
3.5% of the sales price which must be all down payment (with FHA Case number assignments on/after January 1, 2009 can no longer include down payment plus closing costs).

Refinance Transactions
97.75% LTV

NOTE: *Mortgage amount based on after-improved value.*

Loan Terms
30 year Fixed Rate term only

Mortgage Insurance
Refer to FHA Mortgage Insurance Chart

Qualifying Ratios
31%/43%. However, qualifying ratios may exceed guidelines with DU Approve/Eligible recommendation or with compensating factors

Back to Top

Property Types

Eligible

- Single-family dwellings
- 2 units
- Planned Unit Developments (PUDs)
- Site Condominiums
- Townhome/Rowhome
- Modular Homes
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables.
- HUD REOs (Real Estate Owned/Property Disposition Sales) are eligible provided the repairs qualify as eligible work items outlined in these guidelines.
- Properties located in age-restricted communities – must be common for the area and have like comparables

Ineligible

- 3-4 units
- Condominiums (other than site condos)
- See Ineligible Collateral section for a complete list of unacceptable property types

Eligible Borrowers

Individuals only. Nonprofit organizations and government agencies are **not** eligible. Also, an identity of interest transaction is not allowed. There cannot be a relationship in any manner between parties: lender, broker, loan officer, realtor, seller, borrower, builder, contractor, or employer. Employee loans are not eligible.

Occupancy

- Owner-occupied only
- Non-occupying co-borrowers not allowed
- Investors not allowed

Underwriting

All Streamline(k) loans will be underwritten according to standard FHA guidelines. Loans must be run through Total Scorecard using Fannie Mae's Desktop Originator/Underwriter. The loan must be run through with the after repaired/improved value and the adjusted sales price (sales price plus borrower paid repairs minus sales concessions).

Back to Top

Streamline 203(k) Work Items

Eligible

Use of the Streamline(k) Program is limited to properties with the following work items:

- Repair/replacement roofs, gutters and downspouts;
- Repair/replacement/upgrade of existing HVAC systems;
- Repair/replacement/upgrade of plumbing and electrical systems;
- Repair/replacement of existing flooring;
- Minor remodeling, such as kitchens/baths, which **does not** involve structural repairs;
- Painting, both exterior and interior;
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.;
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens;
- Accessibility improvements for persons with disabilities;
- Lead-based paint stabilization or abatement of lead-based paint hazards (including the availability to pay for lead-based paint stabilization costs above and beyond that paid for by HUD when it sells real estate owned property (HUD REO). *Contractor must carry certification by the EPA to complete these repairs;
- Repair/replacement/addition of exterior decks, patios, porches
- Basement finishing and remodeling, which does not involve structural repairs;
- Basement waterproofing;
- Window and door replacements and exterior wall re-siding;
- Septic system and/or well repair or replacement.
- Mold abatement/remediation, which must be completed by a qualified professional.

Repairs must comply with all local codes and ordinances. The borrower and/or contractor must obtain all required permits prior to the commencement of work. Once the mortgage is approved and closed, the list of repair items cannot be changed unless the servicing lender approves a written change order. Change orders are limited to unforeseen conditions that are discovered during the course of the rehabilitation process (such as hidden damage caused by termites, mold or water damage, etc.). Costs related to change orders cannot be used to increase the mortgage amount. Change orders may result in the reallocation of mortgage proceeds among cost categories or in the substitution of work items covered by the proceeds. Therefore, any change order permitting additional work must also delete a corresponding dollar amount of previously approved rehabilitation work. If change orders result in a net cost increase, the borrower is responsible for the additional costs. If change orders result in a net cost decrease, the excess mortgage proceeds must be used to reduce the principle balance of the mortgage. If, for any reason, the costs incurred during the rehabilitation exceed the mortgage amount, the borrower is responsible for the additional costs. MMI will allow self-help in instances where the borrower wishes to purchase their own appliances and/or materials/supplies (such as tile, carpet, cabinetry, etc.) obtained from a home improvement store; however, the borrower will not complete the labor for these items (MMI will not allow self-help for installation by the borrower). Receipts are required to show cost and name of vendor/home improvement store, and the fully completed Self Help Agreement must also be provided. The Homeowner/Contractor Agreement is still required to be executed for the labor performed.

Back to Top

Ineligible

Properties that require the following work items are not eligible for financing under the Streamline(k):

- Major rehabilitation or major remodeling, such as the tear down/relocation of a wall;
- New construction (including room additions);
- Repair of structural damage;
- Repairs requiring detailed drawings or architectural exhibits;
- Landscaping, irrigation, or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than six (6) months;
- Rehabilitation activities that require more than two (2) payments per specialized contractor;
- Luxury items are not eligible (such as hot tubs, swimming pools, fountains, etc.)
- Driveway repairs *If appraiser notes a trip hazard or safety issue, this must be repaired prior to closing, and cannot be included in 203(k) financing

The Streamline(k) program may not be used to finance any required repairs arising from the appraisal that do not appear on the list of Streamline 203(k) Eligible Work Items or that would:

- Necessitate a "consultant" to develop a "Specification of Repairs/Work Write-Up";
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than six months to complete (HUD will not grant extensions);
- Result in work not starting within 30 days after loan closing; or
- Any repairs that would cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted. (FHA anticipates that, in a typical case, the mortgagor would be able to occupy the property after mortgage loan closing).

Back to Top

(Remainder of page intentionally left blank)

Acceptance of Contractors and Rehabilitation Criteria

- No "self-help" arrangements allowed (appliances / materials / supplies are acceptable). **All receipts for reimbursement through the repair escrow account must be dated after the loan closing date.**
- Estimates for work to be done must be provided by contractor(s).
- MMI will approve contractor(s). References (containing verifiable name, address, and phone number), licenses (each contractor must have a Certificate of Liability Insurance), and signed and dated W9 Form is required for all contractors (if more than one is used due to specialized repairs and/or improvements). Local requirements will dictate minimum insurance coverage required for the contractor. *Reference letters are not required.
- MMI will only allow a maximum of 3 contractors per property (including self-help).
- General contractor is not required. **It is strongly recommended to use one (1) general contractor when no specialization is required for repairs (i.e. lead based paint, mold remediation, etc)
- Work plan/cost estimates will be reviewed and must be approved by MMI to ensure the planned work meets all program and repair requirements as noted by the appraiser/inspector. Cost estimates must clearly state the nature and type of repair and the cost for completion of the work item.
- Only "fixed price" contracts, which are subject to written change orders approved by the underwriter in the event of unforeseen conditions, are acceptable. "Cost plus" or "time and material" contracts are prohibited. The repair cost must be reasonable and customary for the area in which the property is located.
- The contractor(s) must finish the work in accordance with the written estimate and the Homeowner/Contractor Agreement as well as any approved change order.
- Architectural exhibits do not apply.
- After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame. (See 203k Homeowner Contractor Agreement posted on our website.)
- The Rehabilitation Construction Period begins when the mortgage is closed.
- Any repairs that have already been completed cannot be included in 203(k) financing.

FHA Case Number Processing/Data Entry Requirements

- ADP Selector will be Improvements – (203k). For the Amortization type select Fixed. For Property Type, select as appropriate (if property is a Site Condo then Condominium must be selected).
- In the 203k Consultant ID you must enter "203kS".
- HUD REO's require additional information as follows:
    - Processing type must indicate "Real Estate Owned with Appraisal" since a new appraisal is required.
    - If Purchase: Was this case previously sold as Real Estate Owned (previously sold by HUD)? **Always check YES.** Complete the "Previous Case Number" field with the 10 digit FHA Case Number.

Back to Top

FHA Appraisal Requirements

- If the borrower is applying for a Streamline(k) mortgage based on needed repairs identified by a pre-purchase home inspection, the AMC/Appraiser must be provided with the information regarding the borrower's planned repairs and a copy of the pre-purchase home inspection and the appraiser must confirm that the repairs may be accomplished without a fee consultant, work write-up, plans and/or specification. Additionally the appraiser must still note any health and safety deficiency items and/or FHA Minimum Property Requirements (MPR) that the proposed repairs/exhibits do not address.
- The appraisal must be ordered as a Streamline 203(k) and all bids/cost estimates, etc. must be provided to the AMC when the appraisal order is placed. The appraisal will be done with both the "as is value" and the estimated value "after repaired". For HUD REO properties the HUD appraisal must be obtained from the M&M contractor and an additional appraisal must be ordered. This second appraisal that is required for 203k as repaired value may be charged to the borrower.
- Properties considered to be in less than "average" condition by the appraiser are ineligible.

FEMA Declared Disaster Area Policy

If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D with photos will be required to recertify the value/condition of the subject property.

Refinancing

Although Section 203(k) may be used to refinance and rehabilitate a property, it may not be used as a means of withdrawing or recapturing equity, and thus, no cash back to an investor/mortgagor is permitted. It is essential that any existing debt or obligation(s) be clearly limited to the property to be rehabilitated. A line of credit made available to the refinancing mortgagor without a clear connection to the subject property does not meet HUD requirements unless there is documentation, acceptable to the Secretary, indicating loan proceeds were used for the purchase and/or repair of the property. The same is true for any first mortgage or other junior liens secured by the property for at least one year prior to loan application. The maximum mortgage amount allowed is limited to the lesser of:

- The sum of the existing principal balance, costs of rehabilitation, non-recurring closing costs, and reasonable discount points, **or**
- The sum of the As-Is Value (or the acquisition cost if owned less than one year from the date of application, whichever is less), the cost of rehabilitation, non-recurring closing costs and reasonable discount points.

Back to Top

Disbursements/Payments to Contractors

- MMI will disburse the initial draw at closing. The borrower(s) will receive an informational packet from the servicing lender, after MMI is funded by the investor which will explain the following:
- Maximum two (2) disbursements will be made (an initial and a final). Additional disbursements will not be permitted.
- First disbursement will be made at closing. Initial disbursement will be 50% of total cost of repairs from line B1 of the Streamline(k) Maximum Mortgage Worksheet. Of that 50% each contractor bid (including self-help) will be issued at 50% of their respective bid. The funds will be made payable to the borrower and contractor at time of disbursement.
- Any contractual agreements and paid receipts for permits/fees must be submitted to the servicing lender with the initial and/or final draw request. All contractors and subcontractors must submit invoices on business letterhead, one invoice per contractor. This is mandatory in order to receive payment.
- Any receipts for reimbursement from the repair escrow account cannot be dated prior to the loan closing date (including appliances).
- Final Compliance Inspections are required prior to the final disbursement and will be ordered / obtained by the servicing lender.
- Final disbursement will occur after it has been verified that the title is clear of any mechanics liens. A check will be issued within 5 business days of the verification. Checks will be sent via overnight carrier and will be made payable to both the borrower and the contractor (or funds to borrower if self-help).
- Any remaining amounts in the repair escrow account will be applied toward the principal balance of the loan. This includes any unused contingency funds or inspection fees remaining in the repair escrow account. **No portion of this money may be used for building material changes or repairs**. These funds are interest bearing and interest is accounted for and distributed to the borrower based on the borrower's instructions outlined in the 203(k) Borrower's Acknowledgment Form HUD-92700-A.
- All repairs/home improvements must be completed within six months, in compliance with the Rehabilitation Loan Agreement.

Back to Top

FHA Repair Escrow Guidelines

Introduction

Escrow holdbacks are used to facilitate loan closings for properties that require no more than $5000 of repairs to meet FHA's minimum property requirements. The buyer or seller is required to establish a cash escrow that will ensure the completion of the required repairs. These proceeds are held in an escrow account until the repair requirements are completed. This borrower accommodation allows the loan to close and the borrower to occupy the property while incidental work is finished. This document is intended to give guidance on proper qualification and closing procedures. Please note that properties being purchased as HUD REOs follow different guidelines as outlined further below.

Conditions for Repair Escrow

MMI will allow escrow holdbacks under the following conditions:

- **HUD-owned Properties** (HUD REOs) that require no more than $5000 of repairs to meet FHA's minimum property requirements are offered for purchase in "as is" condition under Section 203(b). An amount equal to 110% of the estimated cost of the repairs is permitted to be included in the mortgage. Repairs are to be completed within 90 days of the loan close date. If exterior repairs are included the 90 days may be extended due to inclement weather (see defective exterior paint surface scenario directly below).
- Refinance or purchase transactions in cases where **Exterior only repairs** cannot be completed due to inclement weather. Properties that require no more than $5000 of repairs to meet FHA's minimum property requirements appraised in "as is" condition under Section 203(b). An amount equal to 150% of the estimated cost of the repairs will be collected at time of closing. Repairs are to be completed within 90 days of the loan close date however due to inclement weather longer periods may be granted. For instance, if repair escrow needs to be established for defective exterior paint surface in a Michigan home constructed pre-1978 and the closing date is December 5th then the completion date should be April 30 (in lieu of 90 days) in order to allow sufficient time to paint in warmer temperatures. Purchases of bank owned properties with interior repairs will be considered on a case-by-case basis depending on repairs.

Back to Top

(Remainder of page intentionally left blank)

Holdbacks Not Permitted

Escrow holdbacks are not permitted for the following reasons:

- Structural repairs
- Foundation work
- Roofs
- Non-weather related repairs (except HUD REOs. See HUD REO section)
- Items creating a livability issue (see below)

Per HUD guidelines, the dwelling on the mortgaged premises must be habitable and safe. Items essential for customary occupant use and enjoyment, or for property safety or durability, may not be escrowed. Under no circumstances may a loan be closed if the uncompleted items affect livability or the integrity of the structure (i.e., lack of gas, electricity, or plumbing, HVAC or foundation defects.)

Escrow Holdback Account Administration

MMI requires escrow holdback accounts to be held and administered by title companies

MMI Prior Approval

Required documentation, specific to the holdback, must be reviewed and approved by a DE Underwriter before the loan is cleared to close. See document requirement listed below.

Setting up Escrow Holdbacks

When setting up an escrow holdback, the following documentation is required for DE Underwriter review and approval, specific to the holdback, before the loan is cleared to close. (The below is not required on HUD REOs – see HUD REO section (below) for specific instructions)

- Two (2) itemized bids, from a licensed contractor that clearly identifies each item be completed including an itemized estimation of costs.
- A copy of the contractor's current license.
- The appraisal detailing the required work
- Any other specific documentation as required by the loan type
- Minimum amount of escrow requirement is $500 or 150% (1.5 times) the repair amount (as determined by the underwriter), whichever is greater,
- Determine who is responsible (if borrower or seller) for funds to establish repair escrow account. If borrower is responsible, ensure borrower has sufficient funds to establish repair escrow account.
- The amount of escrow funds withheld is determined by the type of holdback allowed.

Back to Top

Obligations of the DE Underwriter

It is the DE Underwriter's responsibility to:

- Complete the Conditional Commitment (HUD 92800.5B). The Assurance of Completion box must be checked and the escrow amount must be completed. The last box must be checked with the repairs to be completed listed and the "#8" must be listed for Repairs to be completed on the back of the Conditional Commitment.
- The Mortgagee's Assurance of Completion (HUD 92300) must reflect the escrow amount
- The FHA underwriter must reflect a closing condition which indicates the repair escrow and amount to be collected at time of closing and reflect if collected from borrower (or seller). The Mortgagee's Assurance of Completion (pages 1 & 2) must be signed/dated by MMI VP.
- FHA Underwriter is responsible for indicating in MB "notepad" the existence of a repair escrow, the amount and if the funds are being held from the borrower or seller and the completion date. In addition if the transaction is a HUD REO it must indicate the repair escrow is included in the mortgage amount.
- When underwriting a HUD REO with repair escrow the repair escrow must be included in the mortgage amount (see HUD REO guidelines for specifics regarding repair escrow accounts).
- In addition a closing condition must be reflected for the closers to collect the dollar amount on the HUD1 (specify if buyer/seller) and for the repair escrow agreement to be completed.

Obligations of the Loan Closer

It is the Closer's responsibility to:

- Complete the escrow holdback agreement and instruct closing agent to be fully executed by appropriate party (buyer or seller)
- Reflect appropriate escrow amount on HUD-1
- Reflect Escrow Repair Admin Fee of $200 on HUD-1 (if transaction is a HUD REO) and instruct closing agent to collect funds from HUD to MMI
- Instruct the title company to hold and administer the escrow and only disburse funds with MMI authorization (MMI will only hold and administer the escrow as an exception when the settlement agent does not provide this service)

At Closing

Borrower/seller will be required to execute a formal repair escrow holdback agreement. On HUD REOs the HUD-1 must clearly identify the Escrow Repair Admin Fee of $200 collected from seller (US Department of HUD) for MMI administering the repair escrow account. The compliance inspection fee will be paid from this account.

Back to Top

Inspections

Inspections by the original appraiser (approved HUD inspector for HUD REOs) will be required for all holdbacks. If the original appraiser is not available a HUD fee inspector must be utilized for the inspection. A lookup for a fee inspector in your area may be found at HUD's website (https://entp.hud.gov/idapp/html/insplook.cfm?in_fha=No). The required work or repairs must be completed within the time frame mandated by the by the loan program and as stated by the DE Underwriter on the Conditional Commitment and Mortgagee's Assurance of Completion.
It is the originators responsibility to order the Compliance Inspection Report and forward this to MMI with the below required documentation. On the HUD REOs, as part of the responsibility for administering the escrow account, MMI must pay for the inspection of the completed repairs.

On HUD REOs, to compensate DE lenders for establishing and administering the escrow account, a fee of $200 will be paid by HUD to the DE lender at the time of sales closing. In order to be paid, the $200 fee must be included on the lender instructions. On HUD REOs, the originator will arrange for the inspection of the completed repairs and MMI will pay for the inspection from the $200 fee we receive from HUD (this fee will not come out of the repair escrow account). On all other transactions the inspection fee will come out of the repair escrow account.

If an inspection is requested to be done by a HUD fee inspector, the originator must provide a copy of HUD's list of required repairs to the inspector so that the inspector is made aware of the required items he will need to inspect.

Work Completed

Upon completion of the work and prior to the repair escrow deadline, the originator must provide MMI with the following items to document that all the work has been completed:

- Compliance Inspection Report (Form 92051) with invoice
- Invoices showing work completed that are to be paid, if applicable

Documentation should be forwarded to the following:

Michigan Mutual, Inc.
100 Galleria Officentre, Suite 210
Southfield, MI 48034

Attention: Jeff Sugar
Or emailed to: jsugar@michiganmutual.com

MMI will request disbursement of the funds from the title company (settlement agent). On FHA transactions the Compliance Inspection Fee will be paid <u>first</u> from these funds (per HUD requirements). On all HUD REO transactions MMI will remit payment to the Fee Inspector (we have collected this fee from HUD at time of closing) and request disbursement of the funds from the title company simultaneously.

Back to Top

Obligations of the Government Insurer

After Closing

It is the Government Insurer's responsibility to send to HUD after loan closing:

- Mortgagee's Assurance of Completion, (HUD-92300) pages 1 & 2 (fully executed by MMI VP)
- Two (2) itemized bids, from a licensed contractor that clearly identifies each item be complete including an itemized estimation of costs.
- The Conditional Commitment (HUD 92800.5B)
- HUD1
- Repair Escrow Agreement
- Copy of all of the above in tickler file for Jeff Sugar

After Release of Escrow

Send to HUD after repair escrow released:

- Mortgagee's Assurance of Completion, (HUD-92300) page 4 (fully executed by MMI VP)
- Compliance Inspection Report (HUD-92051) appropriately completed with "clear 14" by appraiser, completed by underwriter & signed/dated by appraiser/underwriter.
- Scan to Doc Velocity a fully executed page 5 Mortgagee's Assurance of Completion as well as all completion documentation

If extensions are needed and granted by the DE Underwriter the "tickler file" copy of Mortgagee Assurance of Completion must be amended and sent to HUD with copy for MMI.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be refunded to the escrow depositor (see directly below for HUD REOs). If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing or such additional time as is determined reasonable or the repairs are unsatisfactory, **we must apply the escrow amount to reduce the outstanding principal balance of the mortgage.**

Back to Top

(Remainder of page intentionally left blank)

Repair Escrow

Properties that need less than $5,000 worth of repairs to meet the intent of the MPS will be offered for sale with insured financing available, provided a cash escrow is established to ensure the completion of repairs.

Repair Escrow Financing

The repair escrow **must be financed in the FHA loan** and is not to be taken from HUD proceeds at closing.

Escrow Account

Equal to 110 percent of the estimated cost of repairs and must be established for properties sold under the Property Disposition Sales Program. Since the maximum cost of repairs is $5,000, the maximum escrow amount may not exceed $5,500. The escrow account must be administered by the title company. A 10% coverage is also calculated into the costs so the actual amount given on any repair escrow can be as high as $5500.

Cost of Repairs

Repair escrow amount is taken from line 4 of the sales contract. In addition if additional repairs are revealed during the loan process (for example, as a result of a home inspection), then 2 bids will be required with a list of the repairs needed to make the property insurable and the estimated cost of repairs and the underwriter will determine the additional required escrow amount.

Completion of Repairs

Generally, all repairs are to be completed by the borrower within 90 days of closing. Upon satisfactory completion of repairs, the broker/originator must arrange for a HUD fee inspector to inspect the property. A lookup for a fee inspector in your area may be found at HUD's website (https://entp.hud.gov/idapp/html/insplook.cfm?in_fha=No). The broker/originator must provide a copy of HUD's list of required repairs to the inspector prior to the inspection. The fee inspector is to provide the Compliance Inspection Report (HUD Form 92051) indicating all on site repairs have been acceptably completed. The fee inspector will be paid by MMI (this fee **will not** be paid from the proceeds of the repair escrow account). MMI will disburse the escrow to compensate the borrower or the contractor, as appropriate.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage (no exceptions since this amount has been financed in the mortgage amount). If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing or such additional time as is determined reasonable or the repairs are unsatisfactory, **we must apply the escrow amount to reduce the outstanding principal balance of the mortgage.**

Back to Top

Automated Underwriting Systems / TOTAL Scorecard

Approve/Eligible Risk Classification

If the AUS (using TOTAL Mortgage Scorecard) rates the mortgage loan application as an Accept or Approve based on the analysis of the credit, capacity to repay, and certain other loan characteristics, the loan is eligible for FHA's insurance endorsement provided:

- The data entered into the AUS is true, complete, properly documented, and accurate; and
- The entire loan package meets all other FHA requirements (except for those specifically not required because the loan was evaluated by an AUS). FHA requires adherence to all eligibility rules and the documentation requirements described elsewhere in the TOTAL Mortgage Scorecard User Guide and HUD Handbook 4155.1 REV-5.

Approve/Ineligible Recommendation

The AUS may also provide Approve/Ineligible recommendations. Loans receiving this recommendation have been determined to have met FHA's TOTAL Mortgage Scorecard threshold, but do not meet certain FHA eligibility requirements. The AUS findings will provide detailed information advising why the loan did not meet FHA's eligibility requirements, such as: loan amount exceeds the FHA maximum, property type submitted does not correspond to the Section of the Act selected in the AUS, insufficient reserves on a 3- or 4-unit property, insufficient funds for closing, etc.

Loans that receive a recommendation of Approve/Ineligible may still be eligible for FHA insurance. To achieve eligibility status, MMI must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with FHA underwriting requirements. Loans that receive a recommendation of Approve/Ineligible will receive the benefit of all other Accept or Approve documentation and credit policy revisions. The broker may also need to correct the issue(s) that caused the loan to be ineligible, and resubmit the loan to attempt to obtain an Accept or Approve recommendation (such as when a mortgage amount exceeds statutory limits).

Refer/Eligible Classification

MMI must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a Refer rating. The MMI underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements. It is FHA policy that no borrower will be denied a FHA insured mortgage loan solely on the basis of a risk assessment generated by the TOTAL Mortgage Scorecard.

Back to Top

System Overrides and Manual Downgrades

A system override and/or manual downgrade of an Accept or Approve to a Refer classification may be required if a particular loan application variable is revealed during loan processing.

A system override occurs when a loan application variable triggers a requirement (a "review rule") that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an Accept or Approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, when a casefile cannot be documented according to the AUS / FHA TOTAL Scorecard Findings, and for other reasons including the unlikely failure of the TOTAL Mortgage Scorecard or AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the Accept or Approve documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, MMI must document as a Refer risk class and is accountable for the credit and ratio warranties on these loans. MMI is required to manually downgrade the loan to a Refer under any of the following conditions:

Federal Eligibility

Certain individuals may not be eligible for federal benefits due to delinquent federally-related obligations or actions taken by a federal government agency. If a borrower is discovered to be ineligible due to any of the conditions described below, the lender must downgrade the loan to a Refer status (if the AUS does not do so) and determine what actions, if any, may be taken to allow the borrower to qualify for the mortgage. If it is determined that the information originally relied on to determine a borrower to be ineligible was erroneous, the lender may document the file accordingly, and if the loan application is rated as an Accept or Approve, use the credit waivers and reduced documentation accordingly.

Delinquent Federal Debt

If the borrower, as revealed by public records, credit information, or HUD's Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any Federal debt, the borrower is not eligible for a mortgage insured by FHA.

CAIVRS

If CAIVRS indicates a federal delinquency, default, claim payment, or lien, the borrower is not eligible for additional federally related credit. Exceptions and error resolution are discussed in Chapter 2 of Handbook HUD 4155.1 REV-5.

Suspended and Debarred Individuals

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

Back to Top

Credit Issues

Previous Mortgage Foreclosure

A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible for an FHA-insured mortgage. We may, with documented exceptions, continue processing and manually underwrite the loan application. Refer to Handbook HUD 4155.1 REV-5 for exceptions. Provided that the foreclosure was completed at least three years previously and the risk classification from TOTAL is an Accept or Approve, no further documentation regarding the foreclosure is required.

Mortgage History

Late mortgage payments in excess of 1x30 days late.

Bankruptcy

Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within two years of loan application require referral to an underwriter and compliance with the instructions regarding bankruptcies described in Handbook HUD 4155.1 REV-5. A borrower whose bankruptcy has been discharged less than one year is not eligible for FHA mortgage insurance. Provided that the bankruptcy was discharged at least two years previously *and* the risk classification from TOTAL is an Accept or Approve, no further documentation regarding the bankruptcy is required.

Disputed Accounts

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review. However, manual downgrade of a TOTAL Scorecard Approval/Accept recommendation is **not** required if the disputed account reflects all of the following on the credit report. The disputed account:

- Has a zero balance
- Is reflected as paid or resolved
- Is less than $500
- Is more than 24 months old, based on the date of the dispute

Upfront Disclosure Policy

At the time of loan submission, MMI requires evidence that initial disclosures were delivered to the borrower within compliance. The date indicated on the disclosures must reflect that they were prepared / delivered in compliant timeframes. The broker must submit copies of all HUD/FHA, federal, state, and local disclosures which will be monitored on every transaction. MMI complies with federal, state and local policies and procedures such as Fair Housing, ECOA, SAFE ACT, RESPA, HUD/FHA's Appraiser Independence guidelines, MDIA, etc.

Back to Top

Underwriting Status/Decisions

Pre-Qualification
1003 has been uploaded or loan has been locked (no underwriting package had been submitted).

Incomplete
Insufficient documentation was submitted for the loan file to be underwritten.

Submitted
Loan package has been received, 1003 has been uploaded, and loan has been submitted to an underwriter.

Suspended
Crucial documentation was missing from the submission for the underwriter to render a sound decision.

Approved with Conditions
Underwriter has approved the loan with conditions which need to be met before the loan is cleared to close.

Approved
Loan is approved, all underwriting conditions have been met, and the loan is moved to pre-closing review.

Withdrawn
Loan file was withdrawn by the borrower or the broker.

Declined
A loan is declined only after all alternatives are explored. MMI may make recommendations or offer a counter proposal regarding the terms and conditions required for loan approval.

Clear to Close
All prior to closing conditions have been met and cleared by the underwriter and loan is ready to close. All “At Closing” or “Prior to Funding” conditions must be forwarded to MMI prior to funding for underwriter approval or with the closed loan package as noted on the MMI Underwriting Report “Conditions to be Cleared at Closing”.

Back to Top

FHA UFMIP Chart

Up-front MIP CASE NUMBERS ASSIGNED On/After October 4, 2010

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS **>15 YEARS**		
Up-front	LTV Ratio	Premium
1.00%	>95	.90%
1.00%	≤95	.85%

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS **≤15 YEARS**		
Up-front	LTV Ratio	Premium
1.00%	>90	.25%
1.00%	≤90	-None-

Up-front MIP CASE NUMBERS ASSIGNED On/After April 18, 2011

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS **>15 YEARS**		
Up-front	LTV Ratio	Premium
1.00%	>95	1.15%
1.00%	≤95	1.10%

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS **≤15 YEARS**		
Up-front	LTV Ratio	Premium
1.00%	>90	.50%
1.00%	≤90	.25%

*For Case Numbers assigned on/after 4/18/11: If LTV is ≤ 78% on a loan with a 15-year term, no annual (monthly) MIP will be collected.

Back to Top

FHA ARM Matrix

		FHA 3/1 ARM	FHA 5/1 ARM
1	Product Description	FHA Three Year Adjustable Rate Mortgage 30 Year Term Non-Convertible Fully Amortizing	FHA Five Year Adjustable Rate Mortgage 30 Year Term Non-Convertible Fully Amortizing
2	Annual Cap	1%	1%
3	Lifetime Cap	5%	5%
4	Margin	2%	2%
5	Index	One Year Constant Maturity Treasury (CMT)	One Year Constant Maturity Treasury (CMT)
6	Rate Adjustment	Initial note rate is in effect for 36 to 42 months	Initial note rate is in effect for 60 to 66 months
7	Buy downs	Not allowed	Not allowed
8	Qualifying Rate	Note rate	Note rate
9	Credit	Single merge credit report will be pulled prior to closing. Any major discrepancies to initial credit submission will need to be addressed	Single merge credit report will be pulled prior to closing. Any major discrepancies to initial credit submission will need to be addressed
10	AVM	AVM will be run on all FHA ARM loans. Based on info obtained, additional conditions may apply.	AVM will be run on all FHA ARM loans. Based on info obtained, additional conditions may apply.
11	MAX LTV Purchase Rate/Term Refi Cash Out Refi	 96.50% 97.75% 85.00%	 96.50% 97.75% 85.00%
12	Refinance Transactions Streamlines	Net Tangible Benefit form required with a LOX as to the reason for the refinance Streamline Refinances **are permitted** with FHA ARMs	Net Tangible Benefit form required with a LOX as to the reason for the refinance Streamline Refinances **are permitted** with FHA ARMs
13	Units	1-2 Units	1-2 Units
14	Occupancy	Primary	Primary
15	Minimum FICO	640	640
16	Maximum Loan Amt	Up to FHA Statutory Mortgage Limit and no greater than $417,000	Up to FHA Statutory Mortgage Limit and no greater than $417,000
17	Assets Purchase Refinance Seller Contributions Gifts	 Minimum 3.5% down payment No minimum borrower investment necessary Maximum 6% Seller Contributions FHA allowable gifts acceptable	 Minimum 3.5% down payment No minimum borrower investment necessary Maximum 6% Seller Contributions FHA allowable gifts acceptable
18	Reserves 1-2 Units	 None	 None

FHA High Limit Area Loans

Higher maximum limits are available on FHA loans in certain areas. These increased limits, which are available to qualified borrowers living in or moving to areas with qualifying loan amounts greater than $417,000.

Units:	1-2 units
Property Type:	SFR, PUD, or FHA-approved condo
Maximum Loan Limits:	1 unit up to $729,750; 2 units up to $934,200 (subject to county limits)
Loan Purpose:	Purchase, Rate/Term refinance, and Cash Out refinance (for C/O refinance, no bankruptcy or foreclosures in the last 7 years are allowed)
Documentation:	Full documentation
Eligible Mortgages:	All FHA programs, including Fixed Rate Mortgages and 3/1 and 5/1 Adjustable Rate Mortgages
Maximum LTV Ratio:	Up to FHA maximum LTV limitations
Credit Score:	Minimum of 660, with no mortgage late payments
Underwriting Method:	Loans must be approved through AUS system. FHA High Balance Loans are not eligible for manual underwriting
Appraisal:	A standard FHA appraisal will be required. MMI will run an AVM to confirm the appraised valuation

*Higher maximum limits only apply in areas with high median home prices. In areas of the country with lower median home prices, the standard FHA loan limits apply. Loan amounts vary by geographic area as determined by HUD. Check the county FHA maximum loan limits (https://entp.hud.gov/idapp/html/hicostlook.cfm) to determine if FHA High Balance Loans are eligible for the area.

Back to Top