FHA
Underwriting
Guidelines
# FHA Underwriting Guidelines

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MiMutual Underwriting

**Philosophy**

MiMutual underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Matrices (located on our website at [www.michiganmutual.com](http://www.michiganmutual.com)) 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.

MiMutual 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.

MiMutual 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 agency standards and guidelines. 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. MiMutual’s underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, 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 to you and incorporated into these guidelines.
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.

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). MiMutual 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 MiMutual’s guidelines, then MiMutual’s guidelines described here should be followed.

In addition to program eligibility and prudent underwriting, MiMutual requires all loans to meet the Ability to Repay rules established by the Consumer Financial Protection Bureau (CFPB). The ATR Rule requires that a reasonable, good faith determination is made before or when the loan is consummated, and that the consumer has a reasonable ability to repay the loan. The eight underwriting factors established by the CFPB must be considered, and the loan must be documented accordingly.

1. The borrower’s current or reasonably expected income or assets;
2. The borrower’s current employment status;
3. The borrower’s monthly payment on the covered transaction;
4. The borrower’s monthly payment on any simultaneous loan;
5. The borrower’s monthly payment for mortgage-related obligations;
6. The borrower’s current debt obligations, alimony, and child support;
7. The borrower’s monthly debt-to-income ratio or residual income; and
8. The borrower’s credit history

Additionally, MiMutual will only underwrite/close loans that are Qualified Mortgages (QMs) which meet the criteria for Safe Harbor.

- No risky features permitted (we do not currently offer loans with features the CFPB considers “risky”, so our products will not change)
- No “Higher-Priced Mortgage Loans” at this time (loans which, at the time the interest rate was set, the APR was 1.5% or more over the Average Prime Offer Rate (APOR))

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

Note: Guidance contained in this document assumes the loan received an Approve/Eligible recommendation. Manual underwrites require compliance with agency guidelines.
Requirements and Restrictions

Loan Requirements
- 15, 20, 25 and 30 year fixed rate terms available.
- 5/1 ARM available (30 year term).
- Minimum 640 credit score (regardless of AUS decision), except in cases where the borrower meets the criteria for MiMutual’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 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 have been restructured due to a financial hardship / 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)
- 100% maximum CLTV with acceptable subordinate financing from government agencies

Rate/Term Refinance
- 97.75% maximum LTV/CLTV with acceptable subordinate financing

Streamline Refinance
- 100% maximum CLTV for streamline refinances

Cash Out Refinance
- 85% maximum LTV/CLTV for all cash out transactions
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
- 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 (refinance transactions)
- Multiple dwellings on a single parcel of land
- Properties located in Coastal Barrier Resource Systems
- 2-4 unit properties located in NJ
- Cooperative units
- Properties located on a repaired sinkhole
Appraisals

Appraiser Independence
MiMutual follows HUD/FHA’s Appraiser Independence requirements outlined in Mortgagee Letter 2009-28. Lenders (such as MiMutual) 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
MiMutual 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.

Uniform Appraisal Dataset (UAD)
Effective for all case numbers assigned on or after January 1st, 2012, and for all residential property appraisals with an effective date (date of inspection) on or after January 1, 2012, appraisal reports must be completed in compliance with the Uniform Appraisal Dataset (UAD). This rule applies to all FHA mortgage loans.

The UAD defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. UAD was formulated to improve the quality and consistency of appraisal data. The UAD does not change the look of the existing appraisal forms, but some fields on the forms are being extended to include additional information.

The appraisal forms that must be UAD-Compliant, effective January 1st are:
- Uniform Residential Appraisal Report (FNMA Form 1004)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)

NOTE: MiMutual is unable to accept properties with a Condition Rating of C5 or C6, nor a Quality Rating of Q6.

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**Appraisal Order Process**

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

- Begin at the MiMutual website home page ([www.michiganmutual.com](http://www.michiganmutual.com)) to order your appraisal through your assigned AMC.
- Place FHA appraisal order in the name of MiMutual, 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.
- Upload any required documents (such as the Purchase Agreement).
- The AMC will schedule the appointment with the borrower or realtor as appropriate and complete the appraisal report.
- Upon completion of the appraisal report, the AMC will upload the appraisal to MiMutual’s system, and an email notification will be generated to inform the broker that it has been received.

**Appraisal Delivery Requirements**

Under the Dodd Frank Act, Regulation B has been revised for all applications taken on/after January 18, 2014. The borrower is required to receive a copy of all valuation documents developed in connection with an application for a loan that is secured by a first lien on a dwelling. This includes:

- Appraisals
- Desk reviews
- AVMs / BPOs

MiMutual will deliver the valuation documents directly to the borrower. This will occur promptly upon completion of the documents or no later than three days prior to closing, whichever is earlier, unless the borrower chooses to waive their right to receive the valuation documents prior to closing on the Appraisal Delivery Timing Waiver disclosure. In this case, the valuation documents are not required to be delivered 3 days prior to closing, but must **always** be delivered at the time of consummation (at the latest).

**Appraisal Report Forms**

- Uniform Residential Appraisal Report (Form 1004): Used for single family properties, including those with an accessory unit, or an individual unit in a PUD project.
- 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 and site condominiums.
- 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). This form **may not** be used if the property has declined in value.
- Comparable Rent Schedule (Form 1007): Required on 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.
**Value Reconsideration Request**
Reconsideration requests must be uploaded, and include at least one of the following in order to qualify for the continuance of the appeal process:

- Provide a previous appraisal dated no more than twelve (12) months prior to the effective date of the appraisal being appealed. *Comps in the previous appraisal will not be assessed if sale dates are > 90 days from the new appraisal effective date; however, information in the appraisal regarding amenities, square footage, etc will be given consideration.*

- Provide a minimum of 2 and up to 5 alternate open market sales, including all available data and MLS ticket, which have closed within 90 days of the appraisal effective date. *Active listings and closed sales after the effective date of the appraisal will not be accepted.*

A request for value reconsideration does not guarantee an adjustment in value.

**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 is not permitted to request that the appraiser change the name of the client within the appraisal report. MiMutual 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 MiMutual’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 MiMutual 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.*
**Appraisal Validity Period**

FHA appraisals are 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 Appraisal Update and/or Completion Report Form 1004D under [Appraisal Report Forms](#) regarding appraisal extensions. For appraisal validity on HUD REO transactions, reference the [HUD REO](#) chapter.

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 MiMutual 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](#). 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.
- FHA Streamline Refinance transactions without an appraisal require a property inspection when the subject property is located in a Presidentially Declared Disaster area, if application is taken within 90 days of the disaster incident period end date. The property inspection requirement may be satisfied with the Fannie Mae form 2075 (exterior only property inspection report) or a property inspection prepared by a licensed inspector.
  - If there is any indication of damage or negative impact on marketability, an interior inspection must be performed. Any repairs that are required as a result of the inspection must be completed prior to closing.
**Proposed / New Construction in Special Flood Hazard Areas (SFHAs)**

If any portion of the property improvements (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) is located within a SHFA, the property is **not** eligible for FHA mortgage insurance **unless**:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from FEMA, or
- The lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31), if the property is not removed from the SHFA by a LOMA or LOMR. The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

**NOTE:** Insurance under the NFIP *is* required when a flood elevation certificate documents that the property remains located within a SFHA.

The LOMA, LOMR, or flood elevation certificate must be submitted with the case for endorsement.

**Repair Escrows**

MiMutual 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 comparable sales also have <750 square feet.

**Acreage**

No maximum number of acres; however, property cannot have agricultural use, and comparable sales 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 comparable sales 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 MiMutual, therefore may be subject to additional documentation and/or limitations.

**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 MiMutual.

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.

**Property Seasoning**

**Reininance 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 91 days to be eligible for FHA financing, unless the loan qualifies for HUD’s **Flipping Waiver** (valid through 12/31/2014).

**NOTE:** Bank-owned properties and HUD/FNMA/FHLMC-owned properties are not subject to the 90-day seller seasoning requirement.
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. MiMutual 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.

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.
**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:

<table>
<thead>
<tr>
<th>Source</th>
<th>Minimum Distance (feet)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property line</td>
<td>10</td>
</tr>
<tr>
<td>Septic Tank</td>
<td>50</td>
</tr>
<tr>
<td>Septic Field</td>
<td>100</td>
</tr>
<tr>
<td>Sewer lines</td>
<td>50</td>
</tr>
<tr>
<td>Chemically poisoned soil</td>
<td>25</td>
</tr>
<tr>
<td>Dry well</td>
<td>50</td>
</tr>
</tbody>
</table>
**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

**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 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.

**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 connection costs 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
**Water Purification Systems**
Properties with Water Purification Systems are not eligible for financing.
- An individual water purification system is a system that is needed to make the water safe and meet code when the individual water supply is unsafe for human consumption unless the system is operating properly. This is not a system that is installed to improve the taste or softness of the water.
- Properties with individual water purification systems can be identified by reviewing the appraisal.

**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 connection costs will exceed 3% of the estimated value of the property, then connection to the public system is not required.
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
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%.

New Construction Requirements
On new construction one year old or less, *excluding manufactured homes and condominiums*, the following are required:

- Builder’s Certification of Plans, Specifications and Site (HUD-92541),
- Wood Infestation Report, NPCA 99a and 99b,
- Local Heath Authority well water analysis or septic report (where applicable),
- Building Permit and Certificate of Occupancy, and
- Builder’s One Year Warranty (HUD-92544) *only required for 90% LTV or greater*
Condominiums

If the word “condo” appears in the legal description, the property will be deemed a condominium. Under the Housing & Economic Recovery Act of 2008, the insuring of condominium unit loans is now governed by Section 203(b) of the National Housing Act. They should no longer be processed under Section 234(c).

MiMutual only permits the HUD Review and Approval Process (HRAP) as outlined in Mortgagee Letter 2012-18. MiMutual has not implemented the Direct Endorsement Lender Review and Approval Process (DELRAP). Refer to this Mortgagee Letter using the link below 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 identify the HUD Homeownership Center (HOC) that serves the state where the subject property is located: http://www.hud.gov/offices/hsg/sfh/hoc/hsghocs.cfm

FHA HOA Questionnaire
An HOA Questionnaire must be completed and delivered to underwriting. While the use of the form located on MiMutual’s website is not mandatory, any other form used must contain the same information.

Insurance Requirements

Hazard/Liability Insurance (Project Approval)
The homeowners’ association is required to:

• Maintain adequate “master” or “blanket” property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage;

• Maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owners’ association, and public ways of the condominium.

If the HOA does not maintain 100% coverage, the unit owner may not obtain “gap” coverage to meet this requirement.
**HO-6 (Loan Level)**
The unit owner is required to obtain a “walls-in” coverage policy (HO-6 or its equivalent) if the master or blanket policy does not include interior unit coverage. The “walls-in” coverage must be sufficient, as determined by the insurer, to repair the interior of the condominium unit, including any additions, improvements and betterments to repair the unit to its original condition prior to the claim event.

**Fidelity Bond / Fidelity Insurance (Project Approval)**
Fidelity Bond Insurance may also be known as “Employee Dishonesty” or “Crime Policy”. For all new and established projects with more than 20 units, the homeowners association is required to obtain and maintain this insurance;

- The homeowners association must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association;
- The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds unless State law mandates a maximum dollar amount of required coverage.

If the homeowners association engages the services of a management company, the homeowners association must require the management company to maintain Fidelity Bond/Fidelity Insurance coverage for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the owners association. The required coverage must meet the following requirements:

- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy specifically names the management company as an agent or insured;
  OR
- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy includes a “Covered Employee” endorsement that states the person employed by the management company performing the services directed and controlled by the homeowner’s association is covered under the homeowner’s association’s policy.

In no event may the aggregate amount of such bonds be less than a sum equal to 3 months aggregate assessments on all units plus reserve funds unless State law requires a maximum amount of required coverage.
Flood (Project and Loan Level)
The homeowners’ association is required to obtain and maintain:

- Coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of $250,000 per unit, whichever is less;
- The maximum limit of building insurance coverage of a residential condominium building in a regular program community is $250,000 times the number of units in the building (not to exceed the building’s replacement cost);
- The homeowners association, not the borrower or the individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA); and
- The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project;
Eligible Projects

- All common areas and recreational facilities must be completed. The Final Certificate of Occupancy for the final unit and/or subject unit may be required.
- Additional phasing and/or add-ons are not permitted.
- Control of the Homeowners Association must have transferred from the developer to the unit owners.
- Projects must consist of at least 2 units.
- All units must be sold and closed (100% complete)
- Project must be at least 50% owner-occupied
- No more than 10% of units may be owned by one investor. This also applies to developers/builders that subsequently rent vacant and unsold units. For projects with 10 units or less, no single entity may own more than one unit.
- No greater than 15% of the total units can be more than 60 days past due on their association dues
- If the project has any special assessments pending, their impact on the units and marketability must be analyzed. Any increase in dues must be included in the qualifying ratios. Typically, a newer project will have pending assessments.
- If the HOA is involved in any pending litigation, the complex is generally not eligible for financing. Exceptions may be made, however, providing the litigation does not negatively impact the project or the rights of the unit owners.
- If the project contains any adverse environmental factors that affect the project as a whole or the individual units, the appraiser must address their impact on value and marketability. A determination will be made by underwriting based on their findings.
- The HOA must have a Reserve Fund separate from the Operating Account. The budget must be adequate to ensure sufficient funds are available to maintain and preserve all amenities and features unique to the project, to provide for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget, and to provide adequate funding for insurance coverage and deductibles
- The legal documents of the project may not include any restrictions on sale which would limit the free transferability of title (for example, deed/income restrictions).

**NOTE:** Right of First Refusal is permitted unless it violates discriminatory conduct under the Fair Housing Act regulation at 24 CFR part 100.

- The subject unit must be part of a legally established condominium project, in which common areas are owned jointly by unit owners.
- The units in the project must be held in fee simple title.
- The amenities / recreational facilities must be owned by the HOA
- The property may not operate as a resort or hotel, renting units on a daily/weekly basis. It may not offer services such as housekeeping, restaurant/food service, time shares, mandatory rental pool, or commercial space in excess of 25% of the property’s total floor area in the project.
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 Individual Condominium Unit Appraisal Report (Form 1073) is required, and the Condominium Rider to the Mortgage/Deed of Trust (prepared by MiMutual) must be fully executed at closing. The Uniform Residential Appraisal Report (Form 1004) is no longer permitted. 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 condominium or 804 if a subject is a site 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.

Condominium Conversions

Loan approval for a condominium unit within a converted project is permitted provided the project is 100% complete and appears in FHA Connection on the condominium approval list.

The underwriter is still responsible for:
- Completion the re-certification form to verify the condominium still meets FHA guidelines.
- Reviewing title to ensure the underlying “blanket mortgage” is paid in full.
- All share interests have been converted to deeds.

HUD Condominium Certifications/Questionnaire

MiMutual’s FHA Condominium Homeowner’s Association Questionnaire (available on our website) is required to be provided to underwriting. Per HUD it is the lender’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. 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.
**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](http://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 50 percent concentration level (plus a small tolerance to accommodate for some fall-out) has been reached in any particular development.**

**When Condo Project Approval is Not Required**
- Streamline refinance transactions without an appraisal
- HUD REO transactions

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Credit

Adverse credit seasoning (bankruptcy, foreclosure, housing lates, etc) is calculated from the date of the occurrence to the date of the loan application.

Documentation Requirements
All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

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
If verification of rental payment history is required, one of the following options may be used:
- 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 (recorded or unrecorded)
- Last 12 (or from inception of the contract) consecutive months canceled checks (front and back), or bank statements showing payments.

NOTE: All land contract transactions are considered as refines.

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).
Credit Reports
All credit reports since the date of application must be provided to the MiMutual underwriter for review. If a credit report (or multiple reports) exist that were pulled before the credit report being used to decision the file, the underwriter will condition for a copy of each report and analyze the data as a part of the borrower’s credit review.

Housing Payment History

Purchases and Rate/Term Refinances
1x30 on housing payment history (all residences collectively) is permitted in the last 12 months.

Cash Out Refinances and Refer Recommendations
A 0x30 housing payment history on all residences in the last 12 months is required (if applicable).

Bankruptcy

Chapter 7 Bankruptcy
MiMutual will deem the age of the bankruptcy by the discharge/dismissal date for Chapter 7. Chapter 7 BK’s discharged less than 2 years from the date of application 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 payoff 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, MiMutual 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).

NOTE: In either circumstance, if the Chapter 13 bankruptcy has not been discharged for a minimum period of 2 years, the loan must be downgraded to a Refer and evaluated by a DE underwriter. Manual underwriting guidelines will apply.
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 may be granted if the foreclosure was the result of documented extenuating circumstances.

Short Sales
A borrower is not eligible for a new FHA-insured mortgage if he/she pursued a short sale agreement on his/her principal residence simply to
- Take advantage of declining market conditions, and
- Purchase a similar or superior property within a reasonable commuting distance at a reduced price as compared to current market value.

Borrower Current at the Time of Short Sale
A borrower is considered eligible for a new FHA-insured mortgage if, from the date of loan application for the new mortgage, all
- Mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale, and
- Installment debt payments for the same time period were also made within the month due.

Borrower in Default at the Time of Short Sale
A borrower in default on his/her mortgage at the time of the short sale (or preforeclosure sale) is not eligible for a new FHA-insured mortgage for three years from the date of the pre-foreclosure sale.

Exception
MiMutual may make an exception to this rule for a borrower in default on his/her mortgage at the time of the short sale if:
- The default was due to circumstances beyond the borrower’s control, such as death of primary wage earner or long-term uninsured illness, and
- A review of the credit report indicates satisfactory credit prior to the circumstances beyond the borrower’s control that caused the default.
Hardship Modifications

**Purchases**
On a purchase transaction, a previous hardship modification does not render a borrower ineligible for financing. However, standard foreclosure seasoning (3 years from date of occurrence) must be met.

**Refinances**
A previous hardship modification is ineligible on refinance transactions.

Derogatory Credit

*For case numbers assigned prior to October 15, 2013*, MiMutual does not require collections/charge-offs to be paid as a condition of a loan transaction. However, any judgments or tax liens that are outstanding must be satisfied (unless they are under an acceptable payment plan).

For case numbers assigned on/after October 15, please refer to the guidance described in the Collections and Judgments section.

Collections and Judgments

Collections and judgments may indicate a borrower's disregard for credit obligations and must be considered in the creditworthiness analysis. The guidance below applies to loans with case numbers assigned on or after October 15, with collection accounts and/or all judgments. Medical collections and charge off accounts are excluded from this guidance.

Credit Analysis

**Manually Underwritten Loans**
MiMutual must document reasons for approving a mortgage when the borrower has collection accounts or judgments.

Regardless of the amount of outstanding collection accounts or judgments, MiMutual must determine if the collection account or judgment was a result of:

- the borrower's disregard for financial obligations;
- the borrower's inability to manage debt; or
- extenuating circumstances.

The borrower must provide a letter of explanation with supporting documentation for each outstanding collection account and judgment. The explanation and supporting documentation must be consistent with other credit information in the file.
**AUS Approve**

There are no documentation or letter of explanation requirements for loans with collection accounts or judgments run through TOTAL Mortgage Scorecard receiving an “Accept/Approve” despite the presence of collection accounts or judgments. These accounts have been already taken into consideration in the borrower’s credit score. If TOTAL Mortgage Scorecard generates a “Refer,” the loan must be manually underwritten in accordance with the guidance above applicable to manually underwritten loans with collection accounts and judgments.

**Capacity Analysis**

**Collections**

FHA does not require collection accounts to be paid off as a condition of mortgage approval. However, FHA does recognize that collection efforts by the creditor for unpaid collections could affect the borrower’s ability to repay the mortgage. To mitigate this risk, FHA is requiring a capacity analysis of collection accounts with an aggregate balance equal to or greater than $2,000, as described below. This guidance applies to all loans, regardless of AUS recommendation.

If the total outstanding balance of all collection accounts for all borrowers is equal to or greater than $2,000, MiMutual will perform a capacity analysis as detailed below. Unless excluded under state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance.

All medical collections and charge off accounts are excluded from this guidance and do not require resolution.

Capacity analysis includes any of the following actions:

- At the time of or prior to closing, payment in full of the collection account (verification of acceptable source of funds required).
- The borrower makes payment arrangements with the creditor. If the borrower has entered into a payment arrangement with the creditor, a credit report or letter from the creditor verifying the monthly payment is required. The monthly payment must be included in the borrower’s debt-to-income ratio.
- If evidence of a payment arrangement is not available, MiMutual will calculate the monthly payment using 5% of the outstanding balance of each collection, and include the monthly payment in the borrower’s debt-to-income ratio.

**Judgments**

FHA requires judgments to be paid off before the mortgage loan is eligible for FHA insurance. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. The borrower must provide a copy of the agreement and evidence that payments were made on time in accordance with the agreement, and a minimum of three months of scheduled payments have been made prior to credit approval.

Borrowers are not allowed to prepay scheduled payments in order to meet the required minimum of three months of payments. Furthermore, MiMutual will include the payment amount in the agreement in the calculation of the borrower’s debt-to-income ratio.

FHA requires judgments of a non-purchasing spouse in a community property state to be paid in full, or meet the exception guidance for judgments above, unless excluded by state law.
**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**

MiMutual requires a minimum credit score of 640. MiMutual 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. MiMutual 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**

MiMutual 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, on mortgages for 2- to 4-unit properties if the LTV exceeds 75%, or when using the 620-639 option). See Non-Occupying Co-Borrower section of the guidelines for further information.
**Disputed Accounts**

For case numbers assigned prior to October 15, 2013, 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 unless any of the following circumstances apply:

- The disputed account has a zero balance
- The disputed account is marked as “paid in full” or “resolved”
- The disputed account is both
  - less than $500, and
  - more than 24 months old

For both disputed accounts and collection accounts, examples of acceptable documentation to support the resolution of disputed accounts or the payoff of accounts would be a letter from the creditor outlining the terms of the payment arrangements, or verifying payoff of debt, cancelled check(s), or a supplement to the credit report verifying payoff or payment arrangements.

For case numbers assigned on/after October 15, 2013, please refer to the guidance described in the Handling of Disputed Accounts section.

**Handling of Disputed Accounts**

The existence of potentially inaccurate information on a borrower’s credit report resulting in a dispute must be reviewed by an underwriter. Accounts that appear as disputed on the borrower’s credit report are not considered in the credit score utilized by TOTAL Mortgage Scorecard in rating the application. Therefore, MiMutual will consider them in the underwriting analysis as described below.

For case numbers assigned on or after October 15, FHA is revising policy on manual downgrades for applications with disputed accounts to reflect the risk associated with derogatory and non-derogatory disputed accounts for factors such as age and size of outstanding balance.

**Disputed Derogatory Accounts Indicated on the Credit Report**

If the credit report utilized by TOTAL Mortgage Scorecard indicates that the borrower is disputing derogatory credit accounts, the borrower must provide a letter of explanation and documentation supporting the basis of the dispute. MiMutual will analyze the documentation provided for consistency with other credit information in the file to determine if the derogatory credit account should be considered in the underwriting analysis.
### Loans with an AUS Approve and Disputed Accounts

<table>
<thead>
<tr>
<th>Disputed Derogatory Credit Accounts Greater Than or Equal To $1,000</th>
<th>If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is equal to or greater than $1,000, the mortgage application must be downgraded to a Refer and a Direct Endorsement underwriter is required to manually underwrite the loan as described above.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disputed Derogatory Credit Accounts Less Than $1,000</td>
<td>If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is less than $1,000, a downgrade is not required.</td>
</tr>
</tbody>
</table>
| Excluded Accounts | • Disputed medical accounts are excluded from the $1,000 limit and do not require documentation  
• Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use are also excluded from the $1,000 limit. However, the lender must provide in the case binder a credit report, letter from the creditor, or other appropriate documentation to support the dispute, such as a police report disputing the fraudulent charges. |

Disputed derogatory credit accounts are defined as follows:
- disputed charge-off accounts,
- disputed collection accounts, and
- disputed accounts with late payments in the last 24 months.

Disputed derogatory credit accounts of a non-purchasing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a “Refer”.

Non-derogatory disputed accounts are excluded from the $1,000 cumulative total.

### Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report

Non-derogatory disputed accounts include the following types of accounts:
- disputed accounts with zero balance,
- disputed accounts with late payments aged 24 months or greater, and
- disputed accounts that are current and paid as agreed.

If a borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, MiMutual will not downgrade the application to a “Refer.” However, we will analyze the effect of the disputed accounts on the borrower’s ability to repay the loan. If the dispute results in the borrower’s monthly debt payments utilized in computing the debt-to-income ratio being less than the amount indicated on the credit report, the borrower must provide documentation of the lower payments.

### 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, Mi Mutual 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
Mi Mutual will require a monthly payment of 5% of the balance or $10 (whichever is greater) 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.
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, MiMutual 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, MiMutual 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.
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. MiMutual 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
MiMutual will accept payment plans (in lieu of payoff) for judgments, tax liens, etc if the payment arrangement has been established for at least 3 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 3 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, MiMutual 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 CLTV on cash out transactions is 85%.
MiMutual In-file Credit Reports

In certain circumstances, MiMutual 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 MiMutual) 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:

- Loans for brokers on the QIP list
- If credit report used to underwrite the loan exceeds 60 days at closing

Extenuating Circumstances

Extenuating circumstances are circumstances which are typically unanticipated, and beyond the borrower’s control. Examples of extenuating circumstances include:

- Death of a primary wage earner
- Serious, long-term uninsured illness
- Unemployment or severe reductions in income due to the recent recession*

Neither the inability to sell a property due to job transfer or relocation to another area, nor a divorce qualifies as an extenuating circumstance. 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 the borrower’s credit analysis.

If a borrower has experienced a documentable extenuating circumstance which resulted in a bankruptcy, foreclosure, short sale, or other negative impact on their credit, they may be eligible if:

- they can document reestablished good credit
- have demonstrated a documented ability to responsibly manage his/her financial affairs.
- documentation must be provided that the borrower’s current situation indicates that the events that led to the adverse credit are not likely to recur.

*For specific guidance regarding unemployment/reduction in income due to the recent recession, see Mortgagee Letter 2013-26.
Employment/Income

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

MiMutual will require IRS transcripts for the most recent two tax periods (W2s and 1040s), to validate all income used for qualifying. All 4506T results must be obtained by MiMutual.

Documentation Requirements
All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

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
Unemployment Compensation
Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower’s signed federal income tax returns, and is expected to recur.

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

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
Unreimbursed Business Expenses from Schedule A / Form 2106 must be deducted from the borrower’s qualifying income. A 2 year average must be taken, unless the expenses are increasing from year to year. In this case, a 12 month average of the most recent (higher) year must be used.

Automobile Allowances
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.
**Self-Employed**

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed. Even if the income from the self-employed borrower’s business is not used for qualification purposes, the business must still be analyzed to ensure that it will not negatively affect the borrower’s personal income or assets. When the borrower is self-employed, the borrower’s last two years complete tax returns (business and personal) must be obtained and analyzed on a cash flow analysis form to determine the impact of any business losses on the income used to qualify, regardless of whether or not the self-employment income is being used to qualify. Additionally, a signed year-to-date profit and loss statement and a balance sheet are required if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal year-end tax return was filed by the borrower, with no exceptions.

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

**Alimony, Child Support, or Separate Maintenance**

Alimony, child support, or maintenance income may be considered effective, if:

- payments are likely to be received consistently for the first three years of the mortgage
- the borrower provides the required documentation, which includes a copy of the:
  - final divorce decree
  - legal separation agreement,
  - court order, or
  - voluntary payment agreement, and
- the borrower can provide acceptable evidence that payments have been received during the last 3 months, such as
  - cancelled checks
  - deposit slips/bank statements
  - tax returns, or
  - court records.

*NOTE:* Child support may be grossed-up under the same provisions as nontaxable income sources.

**Social Security Income**

Social Security income must be verified by the Social Security Administration (SSA) or from Federal tax returns. If any benefits expire within the first full three years of the loan, the income may only be considered as a compensating factor.

- MiMutual will obtain a complete copy of the current awards letter.
- Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required.

*NOTE:* Some portion of Social Security income may be grossed-up if deemed nontaxable by the IRS.
Social Security (Long-Term) Disability Income
A borrower receiving Social Security income as a result of a long-term disability does not have a defined expiration date and must be expected to continue. The required documentation to verify the amount of the monthly benefit is:

- a copy of the Social Security Disability Income (SSDI) award letter; or
- current bank statement reflecting direct deposit of benefit and previous year’s 1099; or
- current bank statement reflecting direct deposit of benefit and previous year’s tax return reflecting receipt of benefit

Social Security Income Received for a Child
SSI 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; and
- 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)

Social Security Received for an Adult Child (18 or Older) or Parent
SSI received for an adult child 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 most current Award Letter reflecting the borrower as payee/guardian for the adult child/parent; and
- Birth Certificate or other legal document indicating the dependent is 18 or older; and
- Last 2 years 1099’s showing borrower as payee to support history of receipt; and
- Legal guardianship documents reflecting the borrower as legal guardian for the adult child/parent are required.

Retirement Income
Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k) distributions, will cease within the first full three years of the mortgage loan, the income may only be considered as a compensating factor.
Military Income

Military personnel receive base pay, and are often entitled to additional forms of pay, such as
- variable housing allowances
- clothing allowances
- flight or hazard pay
- rations, and
- proficiency pay.

These types of additional pay are acceptable when analyzing a borrower’s income as long as the probability of such pay to continue is verified in writing.

NOTE: The tax-exempt nature of some of the above payments should also be considered.

Foster-Care Income

Verify the foster care income with letters of verification from the organizations providing the income, and document that the borrower has a two-year history of providing foster care services. Foster care income must be likely to continue for the next three years.

Non-Taxable Income

Certain types of income are not subject to Federal income tax. Examples of non-taxable income are:
- 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.

The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower’s gross income. The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.

MiMutual will:
- Document and support the amount of income grossed-up for any non-taxable income source, and
- Use the same tax rate the borrower used to calculate his/her income tax from the previous year

NOTE: If the borrower is not required to file a Federal tax return, the tax rate to use is 25%.

To determine the tax rate from the previous year (using 2012 tax returns), take line 61 from page 2 of the 1040 (total tax) and divide by line 43 (taxable income). In the example below, the borrower’s total tax from line 61 was $186. When that figure is divided by the borrower’s taxable income per line 43 ($1866), you get 0.10, or 10%. Therefore, the non-taxable income on this loan is only permitted to be grossed up by 110%.
Short Term Disability / Workman’s Comp
Not eligible. No Exceptions.

Foreign Income
Foreign income will be considered as acceptable for qualifying only if the income is claimed on US Tax Returns and verifiable via 4506T results.

Maternity Leave
If the borrower will return to work as of the first mortgage payment date, the borrower’s regular employment income may be used for qualifying. If the borrower will not return to work as of the first mortgage payment date, MiMutual will use the lesser of the borrower’s regular employment income or maternity leave income (if any).

If it is determined a borrower will be on maternity leave at the time of closing and that borrower's income is needed to qualify for the loan, the effective income used for qualifying must be supported and confirmation employment will continue must be documented as described below:

- The borrower must have a stable employment and income history that meets standard eligibility requirements; and
- The borrower must provide written confirmation of his or her intent to return to work and the agreed upon date of return as evidenced by documentation provided by the employer.

Information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period would conclude the borrower’s income may not be used as effective income for qualifying.

A verbal verification of employment is required to be obtained within 10 business days of closing. If the employer confirms the borrower is on maternity leave, and the return to work date is consistent with the documentation provided, this is sufficient to consider the borrower as employed.

Income must be verified accordingly with:

- The amount and duration of the borrower’s “maternity leave income,” which may require multiple documents or sources depending on the type and duration of the leave period; and
- The amount of the “regular employment income” the borrower received prior to the maternity leave (regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes for example, base pay, commissions, and bonus)

**NOTE: Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.**
Projected Income

As a general rule, MiMutual 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, MiMutual may waive the requirement for a 30-day paystub prior to closing, providing it can be verified by MiMutual that the borrower has begun their employment with their contracted employer.

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). MiMutual 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 Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. A rental income analysis will also be required to support the monthly rental income.

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.

Timing of Tax Returns

When using tax returns to verify income, the following documentation requirements will apply. Only income that can be verified via 4506T can be used for qualifying. In cases where the 4506T results are unable to be obtained due to taxes having been recently filed, the IRS response to the request must reflect “No Record of Return Found”. In these cases, the following options are available, and can be considered as “verified” for qualification purposes:

- Copies of the most recent year’s signed return, stamped as received and signed by the borrower’s local IRS office.
- If tax returns were filed by a licensed CPA, it is acceptable to obtain a letter, along with copies of the tax returns directly from the CPA, confirming returns have been filed with the IRS.

**NOTE:** Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis, and are subject to underwriter discretion.

Additional Documentation Requirements

- When using tax returns to verify income, and it is between the tax filing date (typically April 15th) and the extension expiration date (typically October 15th), the borrower must provide:
  - Copy of the filed extension. MiMutual will review the total tax liability reported on IRS Form 4868 (Extension to File) and compare it with the borrower’s tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for MiMutual to require the current returns in order to proceed.
  - Current year Profit & Loss Statement and Balance Sheet, executed by the borrower
  - Year-End Profit & Loss Statement for prior year, executed by the borrower
  - Tax returns for the previous 2 years
- After the tax return extension expiration date, loan is not eligible without prior year tax returns
**Assets**

*Borrower's Own Funds to Close*
MiMutual follows AUS findings for acceptable documentation. All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

**Bank Statements**
When using most recent two months’ bank statements dated within 60 days of closing, large deposits must be explained and documented.

**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.

**Large Deposits**
MiMutual will:
- obtain an explanation and documentation for recent large deposits in excess of 2% of the property sales price*, and
- verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.

**NOTE:** If funds to close are required on a refinance, a large deposit will be considered as 2% of the appraised value of the subject property

**Access Letters**
Any depository account that is not solely in the borrower’s name must be accompanied by a written statement signed by the non-borrower party listed on the account, granting full access and use of the funds.

**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.

Back to Top
**Gift of Equity**

A gift of equity from a family member 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.

**NOTE:** An acceptable family member is defined as a child, parent, or grandparent; spouse; legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption; or foster child. A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent.

**Gift Funds**

In order for funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower.

**NOTE:** The portion of the gift not used to meet closing requirements may be counted as reserves.

**Donor Eligibility**

An outright gift of the cash investment is acceptable if the donor is:

- the borrower’s relative
- the borrower’s employer or labor union
- a close friend with a clearly defined and documented interest in the borrower
- a charitable organization
- a governmental agency or public entity that has a program providing home ownership assistance to
  - low- and moderate-income families, or
  - first-time homebuyers.

The gift donor may not be a person or entity with an interest in the sale of the property, such as:

- the seller
- the real estate agent or broker
- the builder, or
- an associated entity.

**NOTE:** Gifts from ineligible sources are considered inducements to purchase, and must be subtracted from the sales price.
**Funds Acceptability**
Regardless of when gift funds are made available to a borrower, MiMutual must be able to determine that the gift funds were not provided by an unacceptable source, and were the donor’s own funds. Cash gifts are not allowed.

When the transfer occurs at closing, MiMutual is responsible for verifying that the closing agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

As a general rule, MiMutual is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transaction.

Donors may borrow gift funds from any other acceptable source, provided the mortgage borrowers are not obligors to any note to secure money borrowed to give the gift.

**Gift Letter**
The lender must document any gift funds through a gift letter, signed by the donor and borrower. The gift letter must:
- show the donor’s name, address, telephone number
- specify the dollar amount of the gift, and
- state:
  - the nature of the donor’s relationship to the borrower, and
  - that no repayment is required.

An acceptable Gift Letter is located on MiMutual’s website. A different form may be used, providing it contains all the same information.

If sufficient funds required for closing are not already verified in the borrower’s account(s), MiMutual must document the transfer of the gift funds to the borrower’s account(s), in accordance with the instructions provided below.
**Documenting the Transfer of Gift Funds**

MiMutual must document the transfer of gift funds from the donor to the borrower. The table below describes the requirements for the transfer of gift funds:

<table>
<thead>
<tr>
<th>If the gift funds...</th>
<th>Then MiMutual must...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are in the borrower’s account</td>
<td>Obtain</td>
</tr>
<tr>
<td></td>
<td>• A copy of the withdrawal document showing that the withdrawal was from the donor’s account, and</td>
</tr>
<tr>
<td></td>
<td>• The borrower’s deposit slip and bank statement showing the deposit</td>
</tr>
<tr>
<td>• Are to be provided at closing, and</td>
<td>Obtain</td>
</tr>
<tr>
<td>• are in the form of a certified check from the donor’s account</td>
<td>• a bank statement showing the withdrawal from the donor’s account, and</td>
</tr>
<tr>
<td></td>
<td>• copy of the certified check</td>
</tr>
<tr>
<td>• are to be provided at closing, and</td>
<td>Have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing that the funds came from the donor’s personal account</td>
</tr>
<tr>
<td>• are in the form of a cashier’s check, money order, or other type of bank check</td>
<td>Have the donor provide documentation of the wire transfer.</td>
</tr>
<tr>
<td>• are to be provided at closing, and</td>
<td></td>
</tr>
<tr>
<td>• are in the form of an electronic wire transfer to the closing agent</td>
<td></td>
</tr>
<tr>
<td>• Are being borrowed by the donor, and</td>
<td>Have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender. <strong>Important:</strong> Cash on hand is not an acceptable source of donor gift funds.</td>
</tr>
<tr>
<td>• Documentation from the bank or other savings account is not available</td>
<td></td>
</tr>
</tbody>
</table>

**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.

**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.)
Determining Sufficient Reserves
Reserve requirements must be based on the full monthly payment amount for the property (PITIA) and not only principal, interest, taxes, and insurance (PITI). The monthly payment amount is defined as the sum of the following monthly charges:

- Principal and interest payments on the mortgage
- Property hazard insurance premiums
- Real estate taxes
- When applicable:
  - Mortgage insurance premiums
  - Homeowners Association dues (excluding unit utility charges)
  - Payments on secondary financing

**NOTE:** Principal and interest payments on ARMs must be calculated based on the qualifying rate.
Refinance Transactions

Mortgage Payoffs
All refinance transactions will require current payoff statements for all liens on title to reflect the loan is current at time of closing (should not reflect more than 59 days of interest). However, paying off an existing FHA loan, where it is permitted for the servicer to collect a full 30 days of interest if payment in full is received after the required monthly payment due date, may result in a full two months’ worth of interest on the payoff. As long as the mortgage is current, this would be considered acceptable. MiMutual does not refinance loans that have been modified (due to hardship), 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 all mortgages 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 MiMutual; 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 MIP Charts

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 lender 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.
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 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 MiMutual and therefore may be subject to additional documentation and/or limitations.

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, 2012, the borrower must have paid the March 2012 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.

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

UFMIP Refunds

Refund Amount Selection
On FHA to FHA refinances (including streamlines), the MIP Refund from the Refinance Authorization screen 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. See MiMutual’s FHA Streamline Maximum Mortgage Worksheet located on our website.

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

Texas Refinances

When refinancing a loan in Texas, it first has to be determined whether or not the property is eligible for max financing based on the borrower’s current liens. A Texas cash out refinance is typically referred to as a 50(a)(6). There are 2 different ways a property can be subject to Texas Article XVI, Section 50(a)(6):

- If the borrower will receive any amount of cash out from the refinance, even if it is of an incidental amount, or
- If the borrower has ever secured a cash-out refinance on the subject property before, or has taken a non-purchase money second, even if the current transaction is only a rate/term refinance. Once a Texas Equity Loan, always a Texas Equity Loan.

MiMutual does not allow Texas 50(a)(6) transactions. MiMutual will only approve purchases, and rate/term refinance loans in Texas where the borrower has never taken equity from the property.
**Cash Out and Principal Curtailments**

A principal curtailment due to an excess premium from the Lender Credit is acceptable; however, a principal curtailment to correct the amount of cash back to the borrower is *not permitted*. The matrix below describes maximum cash out requirements and allowable curtailments.

<table>
<thead>
<tr>
<th>Product</th>
<th>Maximum Cash to Borrower</th>
<th>Maximum Principal Curtailment Due to changes in payoff figures, closing costs, etc.</th>
<th>Maximum Premium Pricing Curtailment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• FHA Streamline</td>
<td>*$500</td>
<td>Prohibited</td>
<td>1% of the loan amount or $2,000, whichever is less</td>
</tr>
<tr>
<td>• FHA Rate/Term Refinance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Closing costs paid out of the borrower’s own funds may be reimbursed at closing and are not considered cash out.

When a principal curtailment is permitted, all excess amounts must be clearly reflected on the HUD-1 as a principal reduction.

*Loan amounts must be properly calculated for the specified loan programs. If the loan amount is outside of the guidelines, the loan amount must be corrected.*

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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) regardless of the amount. If the Earnest Money Deposit is not verifiable, the borrower(s) should not be given any credit for it in the transaction or on the HUD-1 Settlement Statement.

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 properties owned by banks or Agencies, REO properties being disposed of by a lender, or properties where the seller has never occupied the subject.

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 properties owned by banks or Agencies, REO properties being disposed of by a lender, or loans written under the 203(k) program.

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.

It is not needed if:
- The sales contract contains a provision that
  - There are no other agreements between parties, and
  - The terms constitute the entire agreement between the parties, and
- All parties are signatories to the sales contract submitted at the time of underwriting

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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
MiMutual will accept purchase transactions where the seller is selling the home under a “short sale” agreement with their current lender. MiMutual must be provided with the fully executed short sale approval letter, and the requirements set forth by the current lender must be met prior to closing.

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.

Determining Property Taxes on New Construction Dwellings
On newly-constructed properties, realistic estimates of the property taxes that reflect the value of the improvements once they are assessed by the units of government to which those taxes are paid must be used. Such estimates may be obtained from reliable sources such as the appraiser, comparable sales data, or the assessor’s office.
**Property Flipping**

If a property is resold 90 days or fewer following the date of acquisition by the seller, the property is not eligible for a mortgage insured by FHA.

FHA defines the *Seller’s Date of Acquisition* as the date of settlement on the seller’s purchase of that property. The *Resale Date* is defined as the date of execution of the sales contract by a buyer intending to finance a property with an FHA-insured loan.

### 90 Day Flipping Waiver Requirements

- All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. This can be determined by (but not limited to):
  - Limited Liability Companies, Corporations, or Trusts that are serving as sellers were established and are operated in accordance with applicable state and federal law;
  - No pattern of previous flipping exists for the subject property as evidence by multiple title transfers within a 12 month timeframe
  - The property was marketed openly and fairly, through a Multiple Listing Service (MLS), auction, For Sale By Owner (FSBO) offering, or developer marketing (any sales contracts that refer to an “assignment of contract of sale”, which represents a special arrangement between seller and buyer may be a red flag)
- In cases in which the sales price of the property is greater than 20% above the seller’s acquisition cost, the mortgage is not eligible for financing with MiMutual.

### Seller’s Acquisition Cost

The seller’s acquisition cost is the purchase price which the seller paid for the property, and the following costs (if paid by the seller):

- Closing costs, plus
- Prepaid costs, including commissions

The seller’s acquisition cost does not include the cost of repairs that the seller makes to the property.

**NOTE:** Bank-owned properties and HUD/FNMA/FHLMC-owned properties are not subject to the 90-day seller seasoning requirement.

### Second Appraisal Requirements

A second appraisal (completed by another appraiser) is required in cases where:

- The resale date of the property is between 91 and 180 days following the acquisition of the property by the seller, and
- The resale price is 100% or more over the price paid by the seller when the property was acquired
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 12 months, 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 is 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 or other written evidence 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.

NOTE: For the purpose of Identity of Interest transactions, the definition of family member includes: child, parent, grandparent, spouse, legally adopted son or daughter (including a child who is placed with the borrower by an authorized agency for legal adoption), foster child, brother, stepbrother, sister, stepsister, uncle, and aunt. A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a stepparent/grandparent or foster parent/grandparent.

Personal Property
Any personal property (excluding appliances) transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.
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.

Secondary Financing Provided by Government Agencies

For purchases with secondary financing from a government agency (including Section 115 entities) or nonprofit agency considered an instrumentality of the government, the CLTV cannot exceed 100% of the cost to acquire the property. The cost to acquire the property is defined as the sales price plus borrower-paid closing costs, discount points, and prepaid expenses. Listed below are the policies for loans secured by secondary liens:

- The FHA-insured first mortgage, when combined with any second mortgage or other junior lien from a government agency or nonprofit agency considered an instrumentality of government, may not result in cash back to the borrower.
- The FHA-insured first mortgage cannot exceed the FHA statutory limit for the area where the property is located. The combined indebtedness of the mortgages may, however, exceed the FHA statutory limit.
- The cost to acquire may exceed the appraised value of the property under these types of government assistance programs.

It is important to note that the CLTV reflected on the AUS findings will most likely exceed 100%. However, you will still receive an Approve/Eligible recommendation if all data is entered correctly (and loan is not otherwise ineligible).

Downpayment Assistance Programs

MiMutual does not have a list of approved Downpayment Assistance Programs. All DAPs should meet FHA guidelines. MiMutual will not allow any DAP from a provider that requires the lender to be approved.

Evidence of how the DAP is funded and a copy of the approval letter containing terms of assistance must be provided.
**General Provisions**

**Documentation Requirements**
All documentation must be from a reasonably reliable third-party source, and must satisfy the requirements of the Ability to Repay Rule.

**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.
- 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. 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)
  - L-1
  - O-1A, O-1B, O-2
  - TN, TC – See NAFTA below

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

Translated Documents
All documents of foreign origin must be filled out in English, or a complete and accurate translation from an acceptable source must be provided for each document.
Legal Name

Overview
Each borrower must use their legal name when applying for a mortgage. Review the following list of documents to ensure the borrower’s legal name is consistent:

- Loan application (1003)
- Credit Report
- 4506-T
- DU/LP findings
- Title Commitment/Policy
- Purchase agreement
- FHA Case Number Assignment

MiMutual 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:

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. MiMutual 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, MiMutual 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

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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, MiMutual 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
MiMutual 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.

Power of Attorney
MiMutual 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 a MiMutual underwriter prior to closing. Signatures on the POA must match the signatures in the file to MiMutual’s satisfaction.
- The POA must be specific to the loan transaction with MiMutual, and include the full property address of the subject
- The title policy must not make any exceptions based on the use of the POA

NOTE: For properties located in Florida, all Powers of Attorney executed after October 1, 2011 are required to be signed by a Notary Public and two witnesses.

Rescission
MiMutual 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.

Flood Insurance
MiMutual requires flood insurance for all properties that are located within a flood zone. If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), MiMutual will not finance properties located in those areas. At a minimum, coverage amount must meet or exceed the loan amount, but may never exceed $250,000 (NFIP maximum).
**Hazard Insurance**
MiMutual requires hazard insurance on all properties being financed. Sufficient dwelling coverage must be verified, using one of the three methods described below:

- Full Appraised Value (ultimate coverage)
- Total Loan Amount (provided it is at least 80% LTV)
- "Total Estimate of Cost - New" amount listed in the Cost Approach section of the appraisal (this would be the absolute minimum)

**NOTE:** Unless a higher maximum is required by state law, the maximum deductible is 5% of the policy face amount.

**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.

**Title Requirements**

**Redemption Periods on Title**
MiMutual will not accept an unexpired redemption period exception on the final title policy. This guidance applies when the seller is an entity other than the individual with redemption rights.

**Schedule B**
All exceptions reflected in Schedule B of the preliminary title report that may impact lien position must be addressed and/or cleared to ensure the final title policy will reflect the loan in first lien position.

**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**
MiMutual 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.
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 (an in-file “soft pull” credit report will be pulled within 10 days of closing, if the credit report is more than 60 days old.)
- Paystub: 60 days
- Written VOE: 90 days
- VOD/Bank Statement: 60 days (funds to close or reserves) or the most recent statement, if statements are received quarterly, as is typically seen with 401(k) or retirement account statements
- VOR: 90 days
- VOM: 30 days
- Appraisal: 120 days
- Title Commitment: 90 days
- Closing Protection Letter: 30 days

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**Non-Purchasing Spouse**

On a purchase transaction, a non-purchasing spouse 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.

**Community Property States include**: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin

Mortgages in the name of the non-purchasing spouse (the person named on the Note is not our borrower) must be verified as paid as agreed. Any delinquency on the mortgage history in the most recent 12 months must be evaluated when determining the credit worthiness of the borrower.

FHA also expects the underwriter to identify and document:

- The outstanding loan is not another FHA loan as the borrowing spouse’s interest is considered when determining the number of FHA loans permitted by FHA.
- The file must support the subject property will be the borrower and the non-purchasing spouse’s primary residence.

For more information, please see [FHA Policy Limiting the Number of Mortgages per Borrower](#).

**Electronic Signatures**

MiMutual does not permit the use of eSignatures at this time, with the exception of third party documents (such as the purchase agreement).
Trusts
Living (“inter vivos”) trusts must comply with local state regulations and the following requirements. To be eligible for financing, the borrower must be:

- The settlor, or the person who created the trust, and
- The beneficiary, or the person who is designated to benefit from the trust, and
- The trustee or the person who will administer the trust for the benefit of the beneficiary, the borrower

Eligible Borrowers
- One or more borrowers with one living trust, or
- Two or more borrowers with separate living trusts, or
- Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust

Eligible Properties
- 1-4 unit primary residences

Required Documentation
- Attorney’s Opinion Letter from the borrower’s attorney, verifying all of the following:
  - The trust was validly created and is duly existing under applicable law,
  - The trust is revocable,
  - The borrower is the settlor of the trust and the beneficiary of the trust
  - The trust assets may be used as collateral for a loan,
  - The trustee is:
    - Duly qualified under applicable law to serve as trustee,
    - Is the borrower,
    - Is the settlor,
    - Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
- Complete copy of the trust documents certified by the borrower to be accurate, OR a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements

Exception for Trust Certificate Authorized States
In lieu of the Attorney’s Opinion letter and copies of trust documents, the title company Trust Certification is acceptable for the following states:

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<tr>
<th>Alabama</th>
<th>Kansas</th>
<th>New Mexico</th>
<th>Tennessee</th>
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<td>Idaho</td>
<td>New Hampshire</td>
<td>South Carolina</td>
<td>Wyoming</td>
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*The same terms and conditions apply as shown above for the Attorney’s Opinion.
Other Title and Closing Requirements

- The title to the property is vested in the trustee on behalf of the trust (or such other customary practices),
- Title binder may not contain any exceptions to coverage based on the mortgaged property being held by the living trust,
- The Note must be executed individually by the settlor and by the trustee on behalf of the trust. The Revocable Trust Rider must be used with the mortgage or Deed of Trust
- The date of the trust must be reflected on the Note as part of the description below the Trustee’s signature (i.e. Jane Doe, Trustee of the Jane Doe Trust dated April 1, 2000)

Ineligible
- Blind Trusts
- Life Estates

LDP/SAM Lists
MiMutual will examine HUD’s Limited Denial of Participation (LDP) list and the General Service Administration (GSA) Office of Governmentwide Policy’s System for Award Management (SAM). The SAM replaced the GSA lists as of October 31, 2012, and consolidates multiple legacy systems into one source of information. This review will be documented in the file and on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). 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 https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp, and the SAM list by going to https://www.sam.gov/portal/public/SAM/, or both may be checked by logging onto FHA Connection.

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”).
- MiMutual 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).
**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/hsghocsc.html](http://www.hud.gov/offices/hsg/sfh/hoc/hsghocsc.html). 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, MiMutual will cancel one of the case numbers and not wait for automatic case number cancellation.
**Reinstating FHA Case Numbers**

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

- MiMutual provides evidence that the subject loan closed prior to cancellation of the case number, such as a HUD-1 Settlement Statement, or
- MiMutual 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, the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. An elapsed period of less than two years, but not less than 12 months may be acceptable.
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.

**Debt-to-Income Ratio Restriction**

For loans with an Approve/Eligible recommendation, where the borrower(s) total gross income is < $2500 per month, a maximum DTI of 45% will apply. If borrower can document a minimum 6 months PITI in reserves, MiMutual will allow up to 50% DTI. Gift funds cannot be used to meet the reserve requirement.

For loans where the borrower(s) total gross income is ≥ $2500 per month and receive an “Approve/Eligible” AUS recommendation, the loan will not be subject to a DTI overlay.

For loans that require a manual underwrite, regardless of reason, standard manual underwriting ratios of 31%/43% apply (unless compensating factors are documented in the file).
**FHA Policy Limiting the Number of Mortgages per Borrower**

FHA will only permit a borrower to have ownership interest in 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).
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 for loans with case numbers assigned prior to April 21, 2014. 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):

- 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.
Manual Underwriting

This guidance is effective for all manual underwrites with case numbers assigned on/after April 21, 2014. Only the guidance per ML2014-02 is contained in this chapter. There is a substantial amount of Agency guidance regarding Manual Underwrites that, while not described here, still applies to manually underwritten loans. Refer to the 4155 for any topics regarding manual underwriting that are not contained below.

Definitions

**Definition of a Manually Underwritten Loan**
Manually underwritten loans include:

- Loans receiving a *Refer* recommendation from FHA’s TOTAL Scorecard, and
- Loans receiving an *Accept* recommendation from FHA’s TOTAL Scorecard, but which have been downgraded to a *Refer* by the underwriter.

Both instances described above must meet the guidance as described in this chapter.

**Definition of Minimum Decision Credit Score**
A minimum decision credit score is determined for each borrower. When three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available that score is used.

Where the loan involves multiple borrowers, the minimum decision credit score must be determined for each borrower, and then the lowest minimum decision credit score for all borrowers will be selected.

**Definition of Reserves**
Reserves are defined as:

- The sum of verified and documented borrower funds;
- The sum the borrower is required to pay at closing, including the cash investment, closing costs, prepaid expenses, any payoffs that are a condition of loan approval, and any other expense required to close the loan; *but not including*
- The amount of cash taken at settlement in cash-out transactions or incidental cash received at settlement in other loan transactions, gift funds in excess of the amount required for the cash investment and other expenses, equity in another property, and borrowed funds from any source.

**Reserve Requirement**
All manually underwritten loans must meet or exceed the following minimum reserve requirements:

- **1 and 2 Unit Properties**: Reserves must equal or exceed one total monthly mortgage payment.
- **3 and 4 Unit Properties**: Reserves must equal or exceed three total monthly mortgage payments.
Maximum Allowable Qualifying Ratios

Borrowers with Minimum Decision Scores ≥ 640 and No Compensating Factors
The maximum allowable qualifying ratios for borrowers with minimum decision credit scores of 640 or more and no compensating factors are as follows:

- Total monthly mortgage payment may not exceed 31% of gross effective monthly income (33% for Energy Efficient Homes); and
- Total monthly fixed payment may not exceed 43% of gross effective monthly income (45% for Energy Efficient Homes).

Borrowers with Minimum Decision Scores ≥ 640 and One Compensating Factor
The maximum allowable qualifying ratios for borrowers with minimum decision credit scores of 640 or more provided they meet one of the compensating factors specified below are as follows:

- Total monthly mortgage payment may not exceed 37% of gross effective monthly income; and
- Total monthly fixed payment may not exceed 47% of gross effective monthly income.

Acceptable compensating factors are limited to the following:

- Verified and documented cash reserves that equal or exceed three total monthly mortgage payments (one and two units) or that equal or exceed six total monthly mortgage payments (three and four units);
- New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less, and there is a documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous twelve months.
- Residual income

Borrowers with Minimum Decision Scores ≥ 640 and Two Compensating Factors
The maximum allowable qualifying ratios for borrowers with minimum decision credit scores of 640 or more provided they meet two of the compensating factors specified below are as follows:

- Total monthly mortgage payment may not exceed 40% of gross effective monthly income; and
- Total monthly fixed payment may not exceed 50% of gross effective monthly income.

Acceptable compensating factors are limited to the following:

- Verified and documented cash reserves that equal or exceed three total monthly mortgage payments (one and two units) or that equal or exceed six total monthly mortgage payments (three and four units);
- New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less, and there is a documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous twelve months.
- Verified and documented significant additional income that is not considered effective income; and
- Residual income

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Borrowers with Minimum Decision Scores $\geq 640$ and No Discretionary Debt
The maximum allowable qualifying ratios for borrowers with minimum decision credit scores of 640 or more with established credit lines in their own name open for at least six months who carry no discretionary debt (housing payment is only account with an outstanding balance, and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months) are as follows:

- Total monthly mortgage payment may not exceed 40% of gross effective monthly income; and
- Total monthly fixed payment may not exceed 40% of gross effective monthly income.

For borrowers meeting this criterion, no other compensating factors are required.

**NOTE:** A documentable housing payment history is required for this option.
**Maximum Qualifying Ratio Matrix**

The maximum total monthly mortgage payment to gross effective income ratios and total monthly fixed payments to gross effective income ratios applicable to manually underwritten loans are summarized in the matrix below:

<table>
<thead>
<tr>
<th>Lowest Minimum Decision Credit Score</th>
<th>Maximum Qualifying Ratios (%)</th>
<th>Acceptable Compensating Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>640 and Above</td>
<td>31/43</td>
<td>No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45</td>
</tr>
</tbody>
</table>
| 640 and Above                        | 37/47                       | **ONE** of the following:  
- Verified and documented cash reserves equal to at least 3 total monthly mortgage payments (1-2 units) or 6 total monthly mortgage payments (3-4 units)  
- New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and there is a documented 12 month housing payment history with no more than 1x30 (for cash out transactions, all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months)  
- Residual Income |
| 640 and Above                        | 40/40                       | Borrower has established credit lines in his/her own name open for at least 6 months, but carries no discretionary debt (i.e. monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for the previous 6 months) |
| 640 and Above                        | 40/50                       | **TWO** of the following:  
- Verified and documented cash reserves equal to at least 3 total monthly mortgage payments (1-2 units) or 6 total monthly mortgage payments (3-4 units)  
- New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and there is a documented 12 month housing payment history with no more than 1x30 (for cash out transactions, all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months)  
- Verified and documented significant additional income that is not considered effective income (i.e. part time or seasonal income verified for more than one year but less than two)  
- Residual Income |
**Recording Compensating Factors**

Compensating factors cited to support the underwriting decision must be recorded in the *Underwriter Comments* section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

A worksheet must be attached to Form HUD-92900-LT reflecting the calculation of residual income, if applicable. [VA Form 26-6393, Loan Analysis](#), may be used to satisfy this requirement.

**Energy Efficient Homes**

Current policy allows borrowers who are manually underwritten with homes built or retrofitted to exceed the applicable IECC standard including Energy Efficient Mortgages to exceed the 31/43 ratios (33/45 stretch ratios). These borrowers may be eligible for ratios in excess of the 33/45 stretch ratios but not exceeding 37 and/or 47, only if they have a minimum decision credit score of 640 or higher and meet at least any one of the compensating factors specified above. Ratios exceeding 37/47 (not to exceed 40 and/or 50) may be approved only if they have a minimum decision credit score of 640 or higher and meet at least any two of the compensating factors specified above.

**Documenting Acceptable Compensating Factors**

The table on the following page describes the compensating factors (and the documentation required to support the compensating factors) that may be used to justify approval of manually underwritten loans with ratios that exceed FHA standard qualifying ratios. *FHA’s previous list of Compensating Factors may not be used to justify higher ratios on manual underwrites with case numbers assigned on/after April 21, 2014 except as listed below.*

(Remainder of page intentionally left blank)
<table>
<thead>
<tr>
<th><strong>Acceptable Compensating Factors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Verified and Documented Cash Reserves</strong></td>
</tr>
<tr>
<td>Verified and documented cash reserves may be cited as a compensating factor subject to the following requirements:</td>
</tr>
<tr>
<td>- Reserves are equal to or exceed 3 total monthly mortgage payments (1-2 units); or</td>
</tr>
<tr>
<td>- Reserves are equal to or exceed 6 total monthly mortgage payments (3-4 units)</td>
</tr>
<tr>
<td>Funds and/or “assets” that are not to be considered as cash reserves include:</td>
</tr>
<tr>
<td>- Gifts;</td>
</tr>
<tr>
<td>- Equity from another property;</td>
</tr>
<tr>
<td>- Borrowed funds; and</td>
</tr>
<tr>
<td>- Cash received at closing in a cash-out refinance transaction, or incidental cash received at closing in the loan transaction</td>
</tr>
<tr>
<td>A portion of a borrower’s retirement account (IRA, Thrift Savings Plan, 401(k), and Keogh accounts) can be used to calculate cash reserves, subject to the following conditions:</td>
</tr>
<tr>
<td>- To account for withdrawal penalties and taxes, only 60% of the vested amount of the account, less any outstanding loans, may be used. The most recent depository or brokerage account statement must be provided to document the existence of the account. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower’s employment termination, retirement, or death</td>
</tr>
<tr>
<td>- If withdrawals can be made only in connection with the borrower’s employment termination, retirement, or death, the retirement account may not be used to calculate the borrower’s cash reserves. If any of these funds are to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves</td>
</tr>
<tr>
<td><strong>Minimal Increase in Housing Payment</strong></td>
</tr>
<tr>
<td>A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:</td>
</tr>
<tr>
<td>- The new total monthly mortgage payment does not exceed the current total monthly housing payment by more than $100 or 5%, whichever is less, and</td>
</tr>
<tr>
<td>- There is a documented twelve month housing payment history with no more than 1x30. For cash out transactions, all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.</td>
</tr>
<tr>
<td>- If the borrower has no current housing payment, this is not an eligible compensating factor</td>
</tr>
<tr>
<td><strong>No Discretionary Debt</strong></td>
</tr>
<tr>
<td>No discretionary debt may be cited as a compensating factor subject to the following requirements:</td>
</tr>
<tr>
<td>- The borrower’s housing payment history is the only open account with an outstanding balance that is not paid off monthly;</td>
</tr>
<tr>
<td>- The credit report shows established credit lines in the borrower’s name open for at least 6 months; and</td>
</tr>
<tr>
<td>- The borrower can document that these accounts have been paid off in full monthly for at least the past 6 months.</td>
</tr>
<tr>
<td>Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for 6 months, or who cannot document that all other accounts are paid in full monthly for at least the past 6 months, do not qualify under this criterion.</td>
</tr>
</tbody>
</table>
Significant Additional Income Not Reflected in Gross Effective Income

Additional income from bonuses, overtime, part time, or seasonal employment that is not reflected in gross effective income can be cited as a compensating factor subject to the following requirements:

- MiMutual must verify and document that the borrower has received this income for at least one year, and it will likely continue; and
- The income, if it were included in gross effective income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

Residual Income

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Income by Region.

Calculating Residual Income

Residual income is calculated in accordance with the following:

- Calculate the total gross monthly income of all occupying borrowers
- Deduct from gross monthly income the following items:

  Residual Income Deductions From Gross Monthly Income
  
  | State income taxes |
  | Federal income taxes |
  | Municipal or other income sources |
  | Retirement or Social Security |
  | Proposed total monthly fixed payment |
  | Estimated maintenance and utilities |
  | Job-related expenses (ex: child care) |

- Subtract the sum of the deductions from the table above from the total gross monthly income of all occupying borrowers
- The balance is residual income

Calculating Gross Monthly Income

Gross monthly income should be calculated only for the occupying borrowers.

- Do not include bonus, part-time, or seasonal income that does not meet the requirements for effective income.
- Do not include income from non-occupying coborrowers, co-signers, non-borrowing spouses, or other parties not obligated on the mortgage.

NOTE: Because taxes are taken into account in the calculation of residual income, non-taxable income may not be grossed up.
Calculating Monthly Expenses
If available, Federal and state tax returns from the most recent tax year must be used to document state and local taxes, retirement, Social Security, and Medicare. If tax returns are not available, current paystubs may be relied on.

For estimated maintenance and utilities in all states, the living area of the property (square feet) should be multiplied by $0.14.

For example:

1,500 square feet
\[ \times 0.14 \]
$210.00 per month

Using Residual Income as a Compensating Factor
To use residual income as a compensating factor, count all members of the household of the occupying borrowers without regard to the nature of their relationship and without regard to whether they are joining on title or the Note.

**Exception**
MiMutual may omit any individuals from “family size” who are fully supported from a source of verified income which is not included in effective income in the loan analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table below, select the applicable loan amount, region, and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Northeast</th>
<th>Midwest</th>
<th>South</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$390</td>
<td>$382</td>
<td>$382</td>
<td>$425</td>
</tr>
<tr>
<td>2</td>
<td>$654</td>
<td>$641</td>
<td>$641</td>
<td>$713</td>
</tr>
<tr>
<td>3</td>
<td>$788</td>
<td>$772</td>
<td>$772</td>
<td>$859</td>
</tr>
<tr>
<td>4</td>
<td>$888</td>
<td>$868</td>
<td>$868</td>
<td>$967</td>
</tr>
<tr>
<td>5</td>
<td>$921</td>
<td>$902</td>
<td>$902</td>
<td>$1,004</td>
</tr>
<tr>
<td>over 5</td>
<td>Add $75 for each additional member up to a family of seven</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Northeast</th>
<th>Midwest</th>
<th>South</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$450</td>
<td>$441</td>
<td>$441</td>
<td>$491</td>
</tr>
<tr>
<td>2</td>
<td>$755</td>
<td>$738</td>
<td>$738</td>
<td>$823</td>
</tr>
<tr>
<td>3</td>
<td>$909</td>
<td>$889</td>
<td>$889</td>
<td>$990</td>
</tr>
<tr>
<td>4</td>
<td>$1,025</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$1,117</td>
</tr>
<tr>
<td>5</td>
<td>$1,062</td>
<td>$1,039</td>
<td>$1,039</td>
<td>$1,158</td>
</tr>
<tr>
<td>over 5</td>
<td>Add $80 for each additional member up to a family of seven</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The regions on the Table of Residual Income above include the following states:

<table>
<thead>
<tr>
<th>Region</th>
<th>States Included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>CT, MA, ME, NH, NJ, NY, PA, RI, VT</td>
</tr>
<tr>
<td>Midwest</td>
<td>IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI</td>
</tr>
<tr>
<td>South</td>
<td>AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV</td>
</tr>
<tr>
<td>West</td>
<td>AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY</td>
</tr>
</tbody>
</table>

**NOTE:** HUD is adopting this VA guidance solely for the purposes of calculating residual income for use as a compensating factor on manually underwritten loans. Other VA underwriting policies cannot be used in connection with FHA loans, or cited as compensating factors.
MiMutual 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 below will require the following:

- 30 year or 15 year fixed rate term
- DU Approve/Eligible recommendation. FHA Streamline Refinances are permitted without AUS approval; however, manual underwriting guidelines will apply.
- 0x30 housing payment history in the last 12 months, if applicable
- Maximum $417,000 base loan amount, subject to FHA County Loan Limits.
- Owner-occupied, single family residences only (non-occupying co-borrowers are not permitted)

**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
- Loan Purpose
  - Purchase or Refinance
- Funds to Close/Reserves
  - Must be borrower’s own funds. Gift funds not allowed
- Housing Payment History
  - 12 months Management VOR or Cancelled Checks
- 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
- Loan Purpose
  - Purchase or Refinance
- Funds to Close/Reserves
  - 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
- Loan Purpose
  - Purchase
- Funds to Close/Reserves
  - 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:** The HUD $100 Down Program is not available with this program enhancement.

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1Gifts of Equity are not permitted. DAPs are not permitted. A qualified donor (for Option 3) is defined in the Gift Funds section of the guides.
Streamline Refinances

MiMutual requires streamline refinance transactions to fully credit and income qualify. At this time, MiMutual is only offering streamlines without appraisals. Please see MiMutual’s FHA Underwriting Guidelines for requirements on Rate & Term Refinances/No Cash Out.

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). The total loan amount for the new FHA-insured mortgage must never exceed the original principal balance of the existing FHA-insured mortgage.

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, pre-paid expenses and discount points, if any, may not be included in the new mortgage. If the borrower has agreed to pay closing costs, pre-paid expenses 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 lender refinancing the existing loan is also the servicing lender for that mortgage.

NOTE: The appraised value reflected on the Refinance Authorization screen 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.

UFMIP Refunds

Refund Selection
On FHA to FHA refinances (including streamlines), the MIP refund from the Refinance 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. 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. See our FHA Streamline Maximum Mortgage Worksheet located on our website.

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.

Funds to Close
Borrowers are required to provide evidence of sufficient funds to close. This can be documented with either a VOD or a complete copy of borrower’s most recent bank statement.

TOTAL Scorecard / DU
TOTAL Scorecard/DU should not be used on a Streamline Refinance transaction, as the results are considered invalid. FHA Streamline refinance loans that have been run through TOTAL Scorecard/DU will not be considered ineligible, however they will be underwritten according to manual guidelines and the DU findings will not be reviewed. Follow MiMutual Streamline guidelines for documentation and approval requirements.

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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).
- Providing 12 payments have been made on the current loan being refinanced, one 30-day mortgage late payment in the most recent 12 months will be allowed if the underwriter can determine that the delinquency is an isolated incident, and all mortgage payments for the three months prior to the date of the loan application have been paid within the month due. However, 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 refinance 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.

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 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.
## Net Tangible Benefit Guidance

<table>
<thead>
<tr>
<th>To From</th>
<th>Fixed Rate</th>
<th>One-Year ARM</th>
<th>Hybrid ARM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Rate</strong></td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
<td>New interest rate at least 2 percentage points below the current interest rate of the fixed rate mortgage (existing guidance)</td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
</tr>
<tr>
<td><strong>One-Year ARM</strong></td>
<td>New interest rate no greater than 2 percentage points above the current interest rate of the ARM (existing guidance)</td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
<td>New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)</td>
</tr>
<tr>
<td><strong>Hybrid ARM During Fixed Period</strong></td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
<td>New interest rate at least 2 percentage points below the current interest rate of the ARM (existing guidance)</td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
</tr>
<tr>
<td><strong>Hybrid ARM During Adjustable Period</strong></td>
<td>New interest rate no greater than 2 percentage points above the current interest rate of the Hybrid ARM (existing guidance)</td>
<td>Reduction of at least 5 percent of P&amp;I and MIP (new guidance)</td>
<td>New interest rate at least 2 percentage points below the current interest rate of the Hybrid ARM (existing guidance)</td>
</tr>
</tbody>
</table>
**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. At a minimum, one borrower that was obligated under the Note being streamlined must be a borrower on the new loan.

**Deleting an Individual from Title/Mortgage**
All remaining borrowers must credit/income qualify.

**Section 203(k) to Section 203(b)**
- 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**
MiMutual will allow ratios up to 31%/43% (per manual underwriting guidelines), which may be exceeded with compensating factors.

**CAIVRS**
A CAIVRS authorization is not required on an FHA Streamline Refinance transaction.
**Documentation Requirements**

All Streamlines are credit/income qualified. The below documentation **must be provided** at time of submission to underwriting (see [Submission Sheet](#) found on MiMutual’s 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)

**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), unless borrower meets criteria for 620-639 program.
- Mortgage payment history (if not provided on credit report)
- Mortgage payoff statement reflecting the mortgage is current. *MiMutual 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 borrower(s), 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. A fully executed 4506T is always required to obtain the most recent 2 years W2s and 1040s.

**Assets**
Sufficient funds to close must be documented with either a VOD or a complete copy of the borrower’s most recent bank statement.
FHA Documents

- Evidence LDP/SAM 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, MiMutual will obtain:
  - FHA Case Number Assignment *MiMutual must have an active loan for the current borrower, with a valid property address (can no longer request Case Number Assignments on TBD properties)
  - Refinance Authorization.

**NOTE:** The appraised value reflected on the Refinance Authorization screen **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**

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual assistance due to a federal government disaster declaration.

FHA Streamline Refinance transactions without an appraisal require a property inspection when the subject property is located in a Presidentially Declared Disaster area, if application is taken within 90 days of the disaster incident period end date. The property inspection requirement may be satisfied with the Fannie Mae form 2075 (exterior only property inspection report) or a property inspection prepared by a licensed inspector.

- If there is any indication of damage or negative impact on marketability, an interior inspection must be performed. Any repairs that are required as a result of the inspection must be completed prior to closing.
HUD REO Properties

Overview
Through the Property Disposition Insured Sales Program, HUD offers its Real Estate Owned (REO) properties for sale with FHA-insured financing available. Properties must meet the intent of the FHA's Minimum Property Standards (MPS) for existing properties to be eligible for this program.

$100 Down
The FHA $100 Down HUD REO program is a purchase money loan offered in limited geographic areas to purchasers of HUD REOs. Buyers are only required to make a $100 down payment and may be eligible for sales incentives provided by HUD.

To learn about the incentives in your area and find eligible properties in your state use the website as follows: [http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/talk/salesincentives](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/talk/salesincentives)

NOTE: The $100 Downpayment Incentive is not available unless it is on the executed sales contract.

Eligibility Requirements

Maximum LTV
The maximum LTV permitted is 96.5% of the sales price or appraised value, whichever is less, unless the borrower is funding a repair escrow in the loan amount. In those circumstances, an LTV of 110% is permitted. Borrower must contribute a minimum of 3.5% into the transaction.

$100 Down
The maximum LTV using the $100 down program is 99.9%; however, an LTV of 110% is permitted only when the borrower is funding a repair escrow included in the sales contract. The borrower is required to make a minimum $100 down payment.

Buyers who have been approved by FHA to acquire HUD REO properties under an authorized $100 minimum cash investment initiative may only finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100% of the “as-is” appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage. For additional details, please reference this example.

NOTE: The $100 Down payment Incentive is not available unless it is on the executed sales contract.
**Maximum Loan Amount**


**$100 Down**

To calculate the FHA maximum mortgage amount for a HUD home being sold with just a $100 down payment, take the sales price minus the $100 down payment. This will be the new base loan amount. Buyers who have been approved by FHA to acquire HUD REO properties under an authorized $100 minimum cash investment initiative may only finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100% of the “as-is” appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage.

**Example**

The current appraisal used to determine the original listing price is $100,000. After 90 days, FHA reduces the listing price of the unsold unit to $90,000. FHA accepts a bid from an eligible homebuyer for $95,000. The homebuyer qualifies for both FHA financing and participation in the $100 down payment program. Closing costs and prepaids equal $2,375 and the UFMIP is $1660.75 (1.75 percent of the ($95,000 - $100)).

In this example, the maximum FHA loan amount the homebuyer can receive is $96,560 ($94,900 in remaining principal, plus UFMIP ($94,900 x 1.75%, or $1660.75, then rounded down to the nearest dollar). If the homebuyer receives no other subsidies, cash at settlement required from the homebuyer is $2,475 ($100 down payment + $2,375 in closing and prepayment costs) in order to purchase the property.

**Loan Terms**

- 15 year fixed
- 30 year fixed

**Property Types**

- Single-family dwellings
- 2-4 units
- Planned Unit Developments (PUDs)
- Condominiums

**Borrowers**

- Individuals only.
- Non-occupying co-borrowers not permitted.
- Nonprofit organizations and government agencies are not eligible.
**Underwriting**
All FHA HUD REO loans will be underwritten according to standard FHA guidelines. Loans must be run through TOTAL Scorecard using Fannie Mae’s Desktop Originator/Underwriter. Loan may receive an “Ineligible” for mortgage amount calculation if utilizing $100 down and/or if a repair escrow is financed into the loan amount.

**HUD Marketing Approaches**
Each HUD REO property will be offered for sale using one of the approaches listed below.

**Insurable**
Properties marketed as "Insurable" are those that meet FHA's Minimum Property Requirements (MPR) for existing housing and Minimum Property Standards (MPS) for new construction at the time of the appraisal, in “as-is” condition, without repairs being necessary.

**Insurable with Repair Escrow**
A property that requires no more than $5,000 in repairs to meet FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS), as estimated by the Property Condition Report (PCR) and as reviewed and determined to be reasonable by the appraiser, is eligible to be marketed for sale in its "as-is" condition with FHA mortgage insurance under the 203(b) with Repair Escrow program, provided the purchaser establishes a cash escrow to ensure the completion of the required repairs. Purchasers are permitted to include in their mortgage an amount equal to 110 percent of the estimated cost of the repairs.

**Uninsurable**
Properties offered for sale "Uninsurable" do not meet, in their "as-is" condition, FHA's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) and the cost of repairs identified by the appraiser to meet MPR or MPS are estimated to exceed $5,000. **Uninsurable properties are only eligible for Section 203(k) financing.**
Review of the HUD Sales Contract

The "Radon Gas and Mold Notice and Release Agreement" must be included with sales contract and be fully executed by all purchasers of the subject property.

In order to qualify for FHA-insured financing, the first block on Line 4 of the sales contract, as well as the applicable block for the FHA program (203(b), 203(b) with Repair Escrow, or 203(k)) must be checked. A specific down payment and mortgage amount is no longer required to be established on Line 4 of the sales contract. The purchaser must, however, continue to indicate the type of financing being sought.

The amount on Line 5 of the sales contract represents actual borrower financing and closing costs to be paid on their behalf by HUD (the seller) out of the sales proceeds. It does not represent an amount which the borrower may finance in the mortgage. Only the actual amount of closing and financing costs will be paid by HUD at settlement. The borrower will not be credited at settlement for any unused portion.

Specified on Line 8 of the sales contract will be the percentage discount, if any, which will be applied to the sales price at settlement. Where the price will be discounted, the mortgage amount will be based on that discounted sales price, not the contract sales price.

Specified on Line 9 of the sales contract will be the number of days, normally 45 or 60, in which the sale must be closed.

If the contract is not complete, if there are questions about the terms or conditions, or if the contract must be amended as a condition of loan approval, the M&M contractor should be contacted.

Additional Sales Incentives

From time to time, for particular properties or in particular areas, HUD may authorize additional sales incentives. HUD’s program includes additional borrower incentives that may be as high as $2,500 in some markets. These incentives can be used toward closing costs, prepaid expenses, and/or toward repair escrows, if any. In more limited markets, selling real estate agents may also be eligible for up to $500 in sales incentives when borrowers choose certain FHA financing. These incentives are provided by HUD, not by MiMutual, and may be changed or discontinued by HUD at any time.

Where additional incentives are authorized, they will be noted in writing on either the HUD Sales Contract or on a cover letter accompanying the HUD sales contract. MiMutual will not apply incentives based on oral instructions from borrowers, realtors or any other parties.

Where a discount on the sales price is being provided, the mortgage amount shall be based on the lesser of the "as-is" value or the discounted sales price, not the contract sales price. HUD offers various incentives in conjunction with properties acquired through foreclosure. The incentives may include but are not limited to the following:

- $100 down payment when using FHA financing
- Sales allowances that can be used for closing costs, down payment or to make repairs to the property
- Broker (Realtor) bonuses for owner-occupied sales
**Case Number Processing**

A new FHA case number must be obtained for loan applications with FHA-insured financing involving REO properties. The Property Disposition Program Sales Contract (purchase agreement) will indicate the current FHA Case Number; however, it will be short the last number. In order to properly obtain a new FHA Case Number assignment, the complete 10-digit FHA Case Number will have to be obtained by performing a “Case Query” of the property address in FHA Connection. If the complete 10-digit Case Number is unable to be obtained, contact the M&M contractor or the field office where the property is located.

**NOTE:** The HUD sales contract indicates Section 203(b); however, when obtaining the FHA Case Number Assignment, input the proper ADP code in FHA Connection for the appropriate Section of the National Housing Act (ex: 703 for fixed rate, 734 for condominiums, 729 for ARMs, etc).

When entering the new case information in FHA Connection, select "Real Estate Owned without Appraisal" for processing type if the M&M contractor has supplied the HUD appraisal, and do not complete the appraiser assignment information. If the HUD appraisal is not available and a new appraisal is ordered, select “Real Estate Owned with appraisal” and complete the appraiser assignment information. See Appraisals for further information.

When processing, the Computerized Homes Underwriting Management System (CHUMS) will require a response to the question "Was this case previously sold as a Property Disposition?"

- Always check YES when processing a loan application for FHA-insured financing on an REO property.
- The mortgagee should complete the "Previous Case Number" field with the 10-digit FHA Case Number obtained from the Case Query. This field is designed to track REO properties sold with FHA-insured financing and whether they are subsequently sold by the individuals who purchased them from HUD.
- If entry of the previous case number triggers an error message, the mortgage broker should request that the processing and underwriting division of their Homeownership Center (HOC) post the number in the CHUMS property disposition file.

The appraisal fields in FHA Connection should be left blank when obtaining a new case number for REO loans, except in rare instances where a new appraisal is required. See Appraisals for further information.
**Inspection Requirements**

**Appraisals**

Upon conveyance of properties to HUD's REO inventory, HUD's Management and Marketing (M&M) contractors obtain an “as-is” appraisal (not as-repaired) for each HUD REO property to determine the listing price. HUD's REO appraisal is made available to the mortgage broker or purchaser at no charge when a current appraisal is available. This is done to reduce out of pocket expenses by the purchaser. The mortgage broker should contact the M&M contractor to obtain a copy of the current appraisal and the Property Condition Report (PCR). HUD requires this appraisal to be utilized for the underwriting process.

Appraisals have a validity period of 120 days. A valid HUD REO sales contract must be ratified within 120 days of the appraisal effective date. As long as the sales contract is executed by HUD prior to the expiration of the appraisal, the validity period may be extended an additional 30 days (in total, a 150-day validity period).

**Ordering Updated Appraisals**

MiMutual must order a new full appraisal that is valid for a HUD REO property financed with an FHA-insured mortgage if any of the conditions in the following chart exist:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Maximum FHA Insurable Mortgage Amount (subject to underwriting requirements for down payments, financing of closing costs, etc) will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are material deficiencies with the current HUD REO appraisal, as determined by the DE Underwriter</td>
<td>Based on the value of the property as determined by the new appraisal</td>
</tr>
<tr>
<td>The purchaser of a HUD REO property is applying for a 203(k) loan, and an “as-repaired” appraisal is required</td>
<td>Based on the value of the property as determined by the new appraisal</td>
</tr>
<tr>
<td>The REO sales contract was not ratified within 120 days of the HUD REO appraisal’s effective date</td>
<td>Based on the value of the property as determined by the new appraisal</td>
</tr>
<tr>
<td>The appraisal ordered by HUD is no longer valid</td>
<td>Based on the value of the property as determined by the new appraisal</td>
</tr>
<tr>
<td>The contract sales price on a property securing the FHA-insured loan is greater than the value of the appraisal ordered by HUD and/or the “as-is” appraised value is not available</td>
<td>Limited to the lesser of (a) the contract sales price, (b) the new appraisal value, or (c) the initial list price of the HUD REO property.</td>
</tr>
</tbody>
</table>

The initial list price is available on the MLS listing or through the listing broker.

If a new FHA appraisal is ordered, then:
- The original appraisal ordered by HUD may not be used to underwrite the loan (however, it must still be obtained and reviewed);
- HUD will not reimburse MiMutual for the cost of the new appraisal. Consequently, the borrower can be charged for the expense of the new appraisal as part of the borrower’s closing costs on the HUD-1 Settlement Statement;
- MiMutual will provide written justification on the 92900-LT for ordering a new appraisal, and will retain copies of all appraisals available to us in the file.
Establishing Market Value for REO Properties

HUD REO properties must be sold at or near market value. A “market value” price should reflect the price appropriate for properties sold in a competitive and open market, under all conditions requisite to a fair market sale, with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this characterization is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well-informed/well-advised and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in US dollars or in terms of a financial arrangement comparable thereto; and
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Comparables for Appraisals

When considering sales to be used as comparables, the appraiser must note the conditions of sale and the motivations of the sellers and purchasers. If REO sales and pre-foreclosure sales (PFS) / short sales are part of the market competing with the subject property, the appraiser must analyze the effect that these types of sales transactions have on the market and specifically on the subject property.

In some markets, REO and PFS sales may constitute the majority of recent transactions of similar properties, and thus, are significant in the analysis of the property for which financing is sought. However, in developing an opinion of market value, REO sales and PFS sales transactions should not automatically be chosen as comparables. If there is compelling evidence in the market to warrant their use, the appraiser must provide an additional explanation on the appraisal form.

Transfers to a mortgagee or entity owning the mortgage loan by the deed of trust through foreclosure sale or sheriff’s sale are not acceptable as comparable sales under any circumstances.
**Utility Issues**

Utilities should be on at the time the appraisal is conducted, unless there are documented extenuating circumstances. In the event of extenuating circumstances, the appraiser should note the following:

- On the Uniform Residential Appraisal Report (URAR), the appraiser will annotate "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water) -- Unable to verify their functionality". However, the appraiser should note any readily observable condition that is evident.
- HUD’s M&M contractor shall permit entry to the purchaser during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage broker/lender or purchaser(s) must complete the systems check while the utilities are activated. A complete copy of this report must be provided to MiMutual if the HUD REO appraisal was completed without the utilities being activated. The report may identify a need for repairs which were not identified on the appraisal. In such cases the underwriter will address such issues. Section 203(b) financing will not be automatically approved simply based on the terms of the sales contract.

**Home Inspection**

The borrower has the right to have the house inspected by a professional home inspector. HUD's M&M contractor shall permit entry to the purchaser during the contract period.

Additionally, where FHA-insured financing is specified on the sales contract, a form HUD-92564-CN, "For Your Protection: Get a Home Inspection," must be provided to prospective homebuyers at first contact, be it pre-qualification, preapproval, or no later than initial application. If the form is incorporated within the executed sales contract in its entirety, then the homebuyer need not separately be provided with form HUD-92564-CN.

In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the mortgage broker should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect a 203(b) with repair escrow or 203(k) sale. The sales contract must be revised to include this change, and initialed by both the purchaser and the M&M contractor. See the 203(k) Streamline chapter or the Full 203(k) chapter for further details.

**Termite/Pest Inspection**

If a termite inspection is required on existing property, contact the M&M contractor to determine if an inspection report has been performed, and if it has, to obtain a copy of it. See Termite Inspections for further detail.

**Well and Septic System Inspection**

If the HUD REO property has a well and/or septic tank, contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report. See Water System or Sewage System for further detail.
**Repair Escrows**
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. See the Repair Escrow chapter for detailed guidance.

**Closing Costs/Prepaid Expenses**
For HUD-paid closing costs, HUD has authorized as a sales incentive, purchasers to specify in Item 5 on the HUD sales contract an amount which HUD, as seller, may pay on the borrower's behalf at settlement.

This amount may be applied to the **actual cost** of closing costs and/or prepaid expenses. If the total of actual costs of such closing costs and/or prepaid expenses is less than the amount specified in Item 5, the balance may not be credited to the borrower.

Depending upon the amount of closing costs that HUD pays for the borrower, the maximum mortgage amount may have to be reduced in order for the borrower to meet the minimum cash investment required. Closing costs and prepaid expenses may not be included in the mortgage amount.
**Repair Escrows**

**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 borrower 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.

**Requirements**
MiMutual will allow escrow holdbacks under Section 203(b) under the following conditions:
- Minimum amount: $500
- Properties may not require more than $5,000 of repairs to meet FHA’s Minimum Property Requirements.
- Repairs should be considered minor/deferred maintenance, and may not affect the safety, soundness, or structural integrity of the property. This may include, but is not limited to:
  - Worn floor finishes
  - Carpet
  - Minor plumbing leaks
  - Holes in window screens
  - Cracked window glass, or
  - Other minor issues typically related to normal wear and tear
- All repairs must be completed within 90 days, with the exception of exterior repairs that cannot be completed within the allotted timeframe due to inclement weather (for instance, if a 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).
- An amount equal to 150% of the estimated cost of the repairs will be collected at time of closing (so the maximum escrow amount permitted would be $7,500).

**HUD REOs**
HUD-owned properties are offered for purchase in “as is” condition. An amount equal to 110% of the estimated cost of the repairs will be escrowed (so the maximum escrow amount permitted would be $5,500). The escrow must be financed into the FHA loan. It is not to be taken from HUD proceeds at closing.
Holdbacks Not Permitted
Escrow holdbacks are not permitted for the following reasons:

- Structural repairs
- Foundation work
- Roofs
- Items creating a livability issue

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, plumbing, or HVAC, or foundation defects).

Escrow Holdback Account Administration
MiMutual will hold and administer the repair escrow account.

Determining the Escrow Amount
The minimum amount permitted to be escrowed is $500 or the amount of the repairs multiplied by 150%, whichever is greater.

When setting up an escrow holdback, the following documentation is required for the DE Underwriter’s review and approval, specific to the holdback, before the loan is cleared to close

- Two (2) itemized bids from a licensed contractor that clearly identify each item to 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

The amount of repairs will be determined by the underwriter, and multiplied by 150% (1.5 times) to arrive at the total escrow figure. The borrower must have sufficient funds documented to establish the repair escrow account.

HUD REOs
The repair escrow amount is taken from Line 4 of the HUD Sales Contract, which already includes the 10% overage. If additional repairs are revealed during the loan process (for example, as the result of a home inspection), 2 itemized bids will be required with a list of the repairs needed to make the property insurable, and the estimated cost of repairs. The underwriter will then determine the additional required escrow amount.
**Maximum Mortgage Amount Calculation**

**Non-HUD REO with Repair Escrow**
Take the sales price of the property and multiply by 96.5% to determine base loan amount. The amount of the escrow (cost of repairs as determined by underwriter x 150%) is added to the required funds to close, and must be collected at closing.

**HUD REO with Repair Escrow**
Take the sum of the sales price of the property and the repair escrow amount, and subtract the 3.5% down payment to reach your base loan amount.

**$100 Down with Repair Escrow**
Take the sum of the sales price and the repair escrow amount, and subtract the $100 down payment. This will be the new base loan amount. Buyers who have been approved by FHA to acquire HUD REO properties under an authorized $100 minimum cash investment initiative may only finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100% of the “as-is” appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage. For additional details, please reference this example.

**NOTE:** Max mortgage amount calculations should be shown in the remarks section of the FHA Loan Underwriting and Transmittal Summary (92900-LT).

**At Closing**
A formal Repair Escrow Holdback Agreement will be required to be executed by the borrower and MiMutual. A $200 Repair Escrow Administration Fee, payable to MiMutual for administering the repair escrow account, will be collected from the borrower at closing. It must be clearly identified on both the HUD-1 and the Closing Instructions. The Compliance Inspection Fee will be paid for by MiMutual from these funds.

**HUD REOs**
The Repair Escrow Admin Fee will be collected from the seller (US Department of HUD).
**Completion of Repairs**

Generally, all repairs are to be completed by the borrower within 90 days of closing. Upon completion of the work (and prior to the repair escrow deadline), MiMutual will work directly with the customer and the contractor to document all the work has been completed. We will then order the Appraisal Update and/or Completion Report (Form 1004D), indicating all on-site repairs have been acceptably completed. MiMutual will pay for the inspection of the completed repairs with the Repair Escrow Administration Fee collected at closing (funds will not come from the repair escrow account).

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

MiMutual will then 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, without exception. If the escrow is inadequate, or if additional items requiring 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, MiMutual must apply the escrow amount to reduce the outstanding principal balance of the mortgage.
### 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 203(k) 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.

#### Eligibility Requirements

**Maximum Loan Amount**

**Loan Terms**
- 30 year fixed rate
- 15 year fixed rate

**Mortgage Insurance**
Refer to [FHA Mortgage Insurance Chart](https://www.hud.gov/offices/h Venezia Morello Fióla)

**Qualifying Ratios**
31%/43%. However, qualifying ratios may exceed guidelines with DU Approve/Eligible recommendation or with compensating factors. See [DTI Restriction Policy](https://www.hud.gov/offices/h Venezia Morello Fióla) for additional information regarding debt-to-income ratio maximums.

**Eligible Borrowers**
Individuals only; Non-profit 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).

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 comparable sales.
- 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 comparable sales.

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

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. MiMutual 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 (MiMutual 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.
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).

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)
- MiMutual’s Contractor Approval Form

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)
**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.

**NOTE:** The Maximum Mortgage Worksheet must be signed by the underwriter, and the signed copy then sent to the closing to be signed by the borrower(s).

**Purchases**

The maximum mortgage amount is 96.5%, based on the lesser of:

- The estimate of as-is value or the purchase price of the property before rehabilitation, whichever is less, plus the estimated cost of rehabilitation and allowable closing costs; **or**
- 110 percent of the expected market value of the property upon completion of the work

**Refinances**

The maximum mortgage amount allowed is limited to the lesser of:

- The sum of the existing debt, rehabilitation cost, borrower-paid closing costs, prepaids, discount on total loan amount **minus** discount on repair costs, **minus** the FHA MIP refund, **or**
- 97.75% of the lesser of:
  - 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), plus rehabilitation costs, **or**
  - 110% of the after-improved value (or 100% if the property is a site condo)

**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.
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 should be done with the estimated value “after repaired”. The appraiser is not required to provide the “as is” value, but if it is provided, it must be considered in the max mortgage calculation. 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 203(k) as repaired value may be charged to the borrower.

• Properties considered to be in less than “average” condition by the appraiser are ineligible.
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 the work to be done must be provided by the contractor(s) using MiMutual’s 203(k) Contractor Proposal (or a similar document containing the same information). All repairs / improvements must be itemized, both materials and labor.
- MiMutual will approve all contractor(s). The Contractor Approval Form must be completed for each project, and must be submitted to MiMutual with all required attachments:
  - Signed and dated W-9
  - Certificate of Liability Insurance (local requirements will dictate minimum insurance coverage required for the contractor)
  - Copy of license (required unless state does not require contractor licensure)
  - Letters of reference or contact information from customers and suppliers (required when no license is available)
- MiMutual 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 MiMutual 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 203(k) 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.

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 $150.00.

**Supplemental Origination Fee**
MiMutual has temporarily suspended the collection of the Supplemental Origination Fee
**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 greater than 50 years old will require 20%.
- Properties from 31 to 50 years old will require 15%.
- Properties 30 years old or less will require 10%.
- Bank owned/HUD owned/Company owned (LLC, etc.) transactions will require a minimum of 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.
- If the utilities are not turned on for inspection, a minimum of 15% will be required.

**FEMA Declared Disaster Area Policy**

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual assistance due to a federal government disaster declaration.

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.

**Properties Located in Texas**

Only loans that are not subject to Section 50(a)(6) of the Texas Constitution are eligible for 203(k) financing. In addition to all of the standard 203(k) requirements, loans must meet all criteria as described below.

**Work and Materials Contract**

The Work and Materials contract:

- Must be in writing
- Must be signed by both spouses (if married)
- Cannot be signed until at least 5 days after written loan application
- Must be signed at office of lender, title company, or attorney

**Self-Help**

Self-help of any kind is not permitted on 203(k) loans in Texas. The borrower may not purchase their own materials and/or appliances.

**Disbursements**

No funds may be issued to the borrower; therefore, two-party checks are not permitted.
**Disbursements/Payments to Contractors**

MiMutual will disburse the initial draw at closing. The borrower(s) will receive an informational packet from MiMutual within five days of disbursement, 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 MiMutual with the initial and/or final draw request. All contractors and subcontractors must submit invoices on business letterhead, one invoice per contractor. The invoice should itemize the cost of materials and labor for each work item. This is mandatory in order to receive payment. MiMutual has a [203(k) Contractor Proposal](#) that may be used to satisfy this requirement.
- All change order requests must be submitted to MiMutual and approved before work can begin.
- 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 MiMutual.
- 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 the contractor (or to the borrower, if for 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 begin within 30 days of closing, and be completed within six months, in compliance with the Rehabilitation Loan Agreement.
Full 203(k) Repair Program

Unless otherwise addressed below, standard FHA guidelines apply.

Overview
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. This program is intended to assist homeowners with repairs/improvements of $5,000 or greater (Total Rehabilitation Cost line 14 of 203(k) Max Mortgage Worksheet). The mortgage amount will allow for acquisition of the property, and loan proceeds to be applied toward repair/rehabilitation of the property as described in this chapter.

Eligibility Requirements

Minimum Credit Score
A minimum 660 score is required, regardless of AUS recommendation

Maximum Loan Amount

Loan Terms
- 30 year fixed rate
- 15 year fixed rate

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. See DTI Restriction Policy for additional information regarding debt-to-income ratio maximums.

Eligible Borrowers
Individuals only; Non-profit 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

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**Underwriting**
All 203(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).

**Property Types**
Property must have been completed for one year. A SFR can be converted to a multi-family property (up to 2 units), or a multi-family dwelling can be reduced to create a 1- or 2-unit property.

MiMutual does not permit existing homes to be moved to a new location/foundation.

**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 comparable sales.
- 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 comparable sales.

**Ineligible**
- 3-4 units
- Condominiums (other than site condos)
- See [Ineligible Collateral](#) section for a complete list of unacceptable property types
**Process Overview**

The loan will follow the process as described below:

- **Preliminary Feasibility Analysis.** After the property is located, the homebuyer and their real estate professional should make a marketability analysis prior to signing the sales contract. The following should be determined:
  - The extent of the rehabilitation work required;
  - Rough cost estimate of the work; and
  - The expected market value of the property after completion of the work.
  
  *Note: The borrower does not want to spend money for appraisals and repair specifications (plans), then discover that the value of the property will be less than the purchase price (or existing indebtedness), plus the cost of improvements.*

- **Sales Contract is Executed.** A provision should be included in the sales contract that the buyer has applied for Section 203(k) financing, and that the contract is contingent upon loan approval and buyer's acceptance of additional required improvements as determined by HUD or the lender.

- **Consultant Prepares Work Write-up and Cost Estimate.**

- **HUD Case Number is Requested.**

- **Fee Consultant Visits Property.** The homebuyer and contractor (where applicable) meet with the fee consultant to ensure that the architectural exhibits are acceptable and that all program requirements have been properly shown on the exhibits.

- **Appraiser Performs the Appraisal.** Appraiser must be provided with all bids and fee consultant write-up.

- **MiMutual Reviews the Loan Submission.** The loan is reviewed to determine eligibility and maximum insurable mortgage amount for the property

- **Issuance of Conditional Commitment/Statement of Appraised Value.** This is issued by MiMutual and establishes the maximum insurable mortgage amount for the property.

- **MiMutual Issues Underwriting Approval.** If the submission package is found acceptable, the approval is issued. It states the maximum mortgage amount that HUD will insure for the borrower and the property.

- **Mortgage Loan Closing.** After issuance of the Clear to Close, MiMutual prepares for the closing of the mortgage. This includes the preparation of the Rehabilitation Loan Agreement. The Agreement is executed by the borrower and the lender in order to establish the conditions under which the lender will release funds from the Rehabilitation Escrow Account. Following closing, the borrower is required to begin making mortgage payments on the entire principal amount for the mortgage, including the amount in the Rehabilitation Escrow Account that has not yet been disbursed.

- **Mortgage Insurance Endorsement.** Following loan closing, MiMutual submits copies of the mortgage documents to the HUD office for mortgage insurance endorsement.

- **Rehabilitation Construction Begins.** At loan closing, the mortgage proceeds will be disbursed to pay off the seller of the existing property and the Rehabilitation Escrow Account will be established. Construction may begin. The homeowner has up to six (6) months to complete the work depending on the extent of work to be completed.
• **Releases from Rehabilitation Escrow Account.** As construction progresses, funds are released after the work is inspected by a HUD-approved inspector. A maximum of four draw inspections plus a final inspection are allowed. The inspector reviews the Draw Request (form HUD-9746-A) that is prepared by the borrower and contractor.

• **Completion of Work/Final Inspection.** When all work is complete according to the approved architectural exhibits and change orders, the borrower provides a letter indicating that all work is satisfactorily complete and ready for final inspection. If the HUD-approved inspector agrees, the final draw may be released, minus the required 10 percent holdback. If there is an unused contingency fund, the lender must apply the funds to prepay the mortgage principal.

**Eligible Improvements**

The 203(k) can be used to finance painting, room additions, decks, and other items, even if the home does not need any other improvements. Major landscape work and site improvement, patios, decks and terraces that improve the value of the property equal to the dollar amount spent on the improvements or required to preserve the property from erosion. The correction of grading and drainage problems is also acceptable. Tree removal is acceptable if the tree is a safety hazard to the property. Repair of existing walks and driveway is acceptable if it may affect the safety of the property. (Fencing, new walks and driveways, and general landscape work (i.e., trees, shrubs, seeding or sodding) cannot be in the first $5,000 requirement). **However, health, safety, and energy conservation items must be addressed prior to completing general home improvements.** All rehabilitation construction and/or additions financed with Section 203(k) mortgage proceeds must comply with the below guidance regarding required improvements.

**Health and Safety Repairs**

Required health and safety repairs include but are not limited to:

* Remediation of rodents, dry rot, or termite infestation
* Defects that will affect the health and safety of occupants
* All inadequacies of the existing structural, heating, plumbing, electrical systems and the roof
* Upgrade needs of thermal protection (when necessary)
* Installation of a minimum of one approved, listed and labeled smoke detector adjacent to each sleeping area

**Cost-Effective Energy Conservation Improvements**

The following cost-effective energy conservation improvements are also required:

**Additions to Existing Structure/New Construction**

All work items must conform to local codes and HUD’s Minimum Property Standards.

**Rehab of Existing Structure**

To improve thermal efficiency of the dwelling, the following are required:

* Weather strip all doors and windows to reduce infiltration of air when existing weather stripping is inadequate or nonexistent
* Caulk or seal all openings, cracks or joints in the building envelope to reduce air infiltration
* Insulate all openings in exterior walls where the cavity has been exposed as a result of the rehabilitation. Insulate ceiling areas where necessary
* Adequately ventilate attic and crawl space areas
**Replacement Systems**

- HVAC system supply and return pipes and ducts must be insulated whenever they run through unconditioned spaces
- Heating systems, burners, and air conditioning systems must be carefully sized to be no greater than 15% oversized for the critical design, heating or cooling, except to satisfy the manufacturer’s next closest nominal size

All 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 principal 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.

MiMutual 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 (MiMutual 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.

**Ineligible Improvements**

The following work items are not eligible for financing under the 203(k):

- Luxury items and improvements that do not become a permanent part of the real property (such as barbecue pits, bathhouses, dumbwaiters, exterior hot tubs, saunas, spas and whirlpool baths, outdoor fireplaces or hearths, swimming pools, photo murals, tennis courts, tree surgery, etc)
- Purchasing a dwelling on another site, and moving it onto a new foundation on the mortgaged property
- Demolishing or razing a home as a part of the rehabilitation work

The 203(k) program may not be used to finance any repairs that would:

- Require more than six months to complete (HUD will not grant extensions), or
- Result in work not starting within 30 days after loan closing
**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)
- 203(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)
- MiMutual’s Contractor Approval Form

**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)

**Inspector Definitions**

**HUD Roster Inspector**
A HUD Roster Inspector is a full-time employee of HUD. They are far less prevalent now than they used to be.

**HUD Fee Inspector**
Fee Inspectors are qualified inspectors that are well-versed in HUD’s requirements. They are equal to a Roster Inspector, but are paid a fee per inspection as opposed to a salary.

**203(k) Consultant (Fee Consultant)**
A Fee Consultant has the authority to do everything that Roster Inspectors and Fee Inspectors do, but additionally, are trained in building cost analysis. A Fee Consultant must be used on a Full 203(k) transaction.

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Maximum Mortgage Amount Calculation
Use the 203(k) Maximum Mortgage Worksheet (Form HUD-92700) to calculate the mortgage amount. Expenses eligible to be included in the cost of rehabilitation are materials, labor, contingency reserve, overhead and construction profit, expenses related to the rehabilitation such as permits, fees, inspection fees by a qualified home inspector, licenses and consultant and/or architectural/engineering fees, the supplemental origination fee, and the discounts which the borrower will pay on that portion of the mortgage proceeds allocated to the rehabilitation.

NOTE: The Maximum Mortgage Worksheet must be signed by the underwriter, and the signed copy then sent to the closing to be signed by the borrower(s).

Purchases
The maximum mortgage amount is 96.5%, based on the lesser of:
- The estimate of as-is value or the purchase price of the property before rehabilitation, whichever is less, plus the estimated cost of rehabilitation and allowable closing costs; or
- 110% of the expected market value of the property upon completion of the work

Refinances
The maximum mortgage amount allowed is limited to the lesser of:
- The sum of the existing debt, rehabilitation cost, borrower-paid closing costs, prepaids, discount on total loan amount minus discount on repair costs, minus the FHA MIP refund, or
- 97.75% of the lesser of:
  - 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), plus rehabilitation costs, or
  - 110% of the after-improved value (or 100% if the property is a site condo)

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 a 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.

Recently Acquired Properties
Homebuyers who purchase a property with cash can refinance the property using a 203(k) within 6mos of purchase, the same as if the buyer purchased the property with a 203(k) insured loan to begin with. Evidence of interim financing is not required; the mortgage calculations will be done the same as a purchase transaction. Cash back will be allowed to the borrower in this situation less any down payment and closing cost requirement for the 203(k) loan. A copy of the sales contract and the HUD-1 settlement statement must be submitted to verify the accepted bid price (as-is value) of the property and the closing date.
**Appraisal Requirements**

The appraisal must be ordered as a 203(k) and all bids/cost estimates, etc. must be provided to the AMC when the appraisal order is placed. The appraisal should be done with 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 203(k) as repaired value may be charged to the borrower.

An as-is appraisal is generally not required, as we may use the contract price on a purchase transaction or the existing debt on a refinance as the as-is value when this does not exceed a reasonable estimate of value.

However, on a refinance, when a large amount of existing debt (ie: first and second mortgages) suggests that the borrower has little or no equity in the property, or when the borrower does not have any outstanding liens against the property, a current as-is value is required.

**Value After Rehab**

The expected market value of the property is determined upon completion of the proposed rehab and/or improvements.
Acceptance of Contractors and Rehabilitation Criteria

- Self-help arrangements only allowed for appliances / materials / supplies. Labor/installation by the borrower not permitted. All receipts for reimbursement through the repair escrow account must be dated after the loan closing date.
- Estimates for the work to be done must be provided by the contractor(s) using MiMutual’s 203(k) Contractor Proposal (or a similar document containing the same information). All repairs / improvements must be itemized, both materials and labor.
- MiMutual will approve all contractor(s). The Contractor Approval Form must be completed for each project, and must be submitted to MiMutual with all required attachments:
  - Signed and dated W-9
  - Certificate of Liability Insurance (local requirements will dictate minimum insurance coverage required for the contractor)
  - Copy of license (required unless state does not require contractor licensure)
  - Letters of reference or contact information from customers and suppliers (required when no license is available)
- A 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 MiMutual 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.
- 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 203(k) 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.

Explanation of Fees:

**Inspection Fee**
During the rehabilitation construction period, a $50 fee for each of five draw inspections, for a total of $250.00, will be included in the cost of rehabilitation. If all inspections are not required, remaining funds will be applied to the principal after the Final Release Notice is issued.

If additional inspections are required by MiMutual to ensure satisfactory compliance with exhibits, the borrower or contractor will be responsible for payment.

**Supplemental Origination Fee**
MiMutual has temporarily suspended the collection of the Supplemental Origination Fee.
**Title Update Fee**
To protect the validity of the mortgage position from mechanic’s liens on the property, reasonable fees charged by a title company may be included as an allowable cost of rehabilitation. MiMutual will collect two title update fees at $50.00 each at closing, for a total of $100.00. Any monies left in escrow after the final draw release must be applied to reduce the mortgage balance.

**Contingency Reserves**
Contingency Reserves are additional reserves that are kept in the event of cost overruns. Contingency Reserves will be required as follows:
- Properties greater than 50 years old will require **20%**.
- Properties from 31 to 50 years old will require **15%**.
- Properties 30 years old or less 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.
- If the utilities are not turned on for inspection, a minimum of **15%** is required.

The contingency reserve account cannot be used to make additional improvements to the dwelling that are considered luxury items; however, it may be used to pay for added construction costs caused by deficiencies (health, safety and necessity) discovered during rehabilitation. A Request for Change Letter must be submitted with the applicable cost estimates.

If the mortgage exceeds the appraised value less the statutory investment, then the contingency reserve must be paid down on the mortgage principal. If a borrower feels that the contingency reserve will not be used and he wishes to avoid having the reserve applied to reduce the mortgage balance after issuance of the Final Release Notice, the borrower may place his own funds into the contingency reserve account. In this case, if monies are remaining in the account after the Final Release Notice is issued, the monies may be released back to the borrower.

If the mortgage is at the maximum mortgage limit for the area or for the particular type of transaction, but a contingency reserve is necessary, the contingency reserve must be placed into an escrow account from other funds of the borrower at closing. Under these circumstances, if the contingency reserve is not used, the remaining funds in the escrow account will be released to the borrower after the Final Release Notice has been issued.
**Architectural Exhibits/Work Write-Up Fee**

An independent consultant or the HUD Fee Consultant may be used to prepare the architectural exhibits and work write-up – it is not mandatory that a buyer use the services of a 203(k) Consultant approved by HUD. They may opt to use an independent consultant such as a contractor to prepare the exhibits or use an architect or engineer holding a valid state license.

Based on the initial site visit and input from the buyer regarding their renovation plans, the consultant will prepare a concise document regarding the project’s scope and specifications. Architectural exhibits, along with a detailed cost breakdown for each of the repair tasks, will also be included.

While the fees charged by an engineer or architect are not bound by the fee table below, they must still be in a reasonable range. The exact fee to be paid depends on the cost of the proposed repair work. The HUD stipulated fee amounts to be paid to the consultant are below:

<table>
<thead>
<tr>
<th>Fee</th>
<th>Cost of Repairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400</td>
<td>Less than $7,500</td>
</tr>
<tr>
<td>$500</td>
<td>$7,501 - $15,000</td>
</tr>
<tr>
<td>$600</td>
<td>$15,001 - $30,000</td>
</tr>
<tr>
<td>$700</td>
<td>$30,001 - $50,000</td>
</tr>
<tr>
<td>$800</td>
<td>$50,001 - $75,000</td>
</tr>
<tr>
<td>$900</td>
<td>$75,001 - $100,000</td>
</tr>
<tr>
<td>$1,000</td>
<td>More than $100,000</td>
</tr>
</tbody>
</table>

*An additional $25 can be charged for each additional unit in the property under the same case number.*

**Fee Consultant**

If the Architectural Exhibits and the Work Write-Up were prepared by an independent consultant, architect, or licensed inspector, a [HUD-accepted Fee Consultant](https://www.hud.gov/) must visit the site *prior to the appraisal* to ensure compliance with program requirements. The utilities must be on for this site review to take place. This review does not apply if the Architectural Exhibits and Work Write-Up were completed by the Fee Consultant, and the utilities were on at the time of that inspection. The fee is as follows:

- **Initial Review Prior to Appraisal:**
  Cost of Repairs/Fee: $100.00
  - < $15,000 = $100.00
  - $15,001 but less than or equal to < $30,000 = $150.00
  - > $30,001 = $200.00

- **Additional Unit Review:**
  $50.00/unit.

- **Additional Review (Reinspection of the Same Unit):**
  $50.00. When travel distance exceeds 30 miles round trip from the reviewer's place of business, a mileage charge (established by HUD Field Office) may be applied to the above charges, including toll road and other charges where applicable.
**Inspections**

Inspections are performed by [HUD-approved Fee Consultants](#). The consultant is to use the architectural exhibits in order to make a determination of compliance or non-compliance. When the inspection is scheduled with a payment, the inspector is to indicate whether or not the work has been completed. Also, the inspector is to use the Draw Request form (Form HUD-9746-A). The first draw must not be scheduled until MiMutual has determined that the applicable building permits have been issued.

**Architectural Exhibits**

The improvements must comply with HUD’s Minimum Property Standards (24 CFR 200.926d and/or HUD Handbook 4905.1) and all local codes and ordinances. The homebuyer may decide to employ an architect or a consultant to prepare the proposal. The homebuyer must provide MiMutual with the appropriate architectural exhibits that clearly show the scope of work to be accomplished. The following list of exhibits is required:

**Plot Plan of the Site**

This is required only if a new addition is being made to the existing structure. It must show the location of the structure(s), walks, drives, streets, and other relevant details. It must also include finished grade elevations at the property corners and building corners, and show the required flood elevation.

**Proposed Interior Plan of the Dwelling**

Must show where structural or planning changes are contemplated, including an addition to the dwelling. An existing plan is no longer required.

**Work Write-up and Cost Estimate**

Any format may be used for these documents; however, quantity and the cost of each item must be shown. Also include a complete description of the work for each item (where necessary). The Rehabilitation Checklist in Appendix 1 of Handbook 4240.4 REV-2 should be used to ensure all work items are considered. Transfer the costs to the Draw Request (form HUD-9746-A).

Cost estimates must include labor and materials sufficient to complete the work by a contractor. The Work Write-up does not need to reflect the color or specific model numbers of appliances, bathroom fixtures, carpeting, etc., unless they are nonstandard units.

The consultant who prepares the work write-up and cost estimate (or an architect, engineering or home inspection service) needs to inspect the property to assure: (1) there are no rodents, dry rot, termites and other infestation; (2) there are no defects that will affect the health and safety of the occupants; (3) the adequacy of the existing structural, heating, plumbing, electrical and roofing systems; and (4) the upgrading of thermal protection (where necessary).
As detailed in Mortgagee Letter 1995-40, the Consultant must be able to prepare the work write-up and cost estimate **without using contractor bids**. It is important for the Consultant to use cost estimates that are reasonable for the area where the property is located. If contractor bids come in higher than the cost estimates, the Consultant will need to discuss this situation with the borrower and the lender to reconcile the differences and to determine if the proposed repair escrow account may be too low to complete the job. At that point, if the Consultant agrees with the higher costs, an adjusted work write-up with supporting documentation is required to be submitted to MiMutual for consideration.

The work write-up and cost estimate are not required to match the contractor bids dollar-per-dollar. However, the work write-up and cost estimate are to be compared to confirm that all improvements/repairs have been addressed and to confirm the current market costs of materials and labor for the project.

**Properties Located in Texas**

Only loans that are not subject to Section 50(a)(6) of the Texas Constitution are eligible for 203(k) financing. In addition to all of the standard 203(k) requirements, loans must meet all criteria as described below.

**Work and Materials Contract**

The Work and Materials contract:
- Must be in writing
- Must be signed by both spouses (if married)
- Cannot be signed until at least 5 days after written loan application
- Must be signed at office of lender, title company, or attorney

**Self-Help**

Self-help of any kind is not permitted on 203(k) loans in Texas. The borrower may not purchase their own materials and/or appliances.

**Disbursements**

No funds may be issued to the borrower; therefore, two-party checks are not permitted.

**Holdbacks**

A 10% holdback is required on each release from the Rehabilitation Escrow Account. The total of all holdbacks may be released only after a final inspection of the rehabilitation and issuance of the Final Release Notice. MiMutual (or our agent) may retain the holdback for a maximum of 35 calendar days, or the time period required by law to file a lien, whichever is longer, to ensure that no liens are placed on the property.
5/1 ARM

Unless otherwise stated, all of MiMutual’s standard FHA underwriting guidelines apply

Product Description
5/1 ARM available on a 30 year term (fully amortizing)

Index
One Year Constant Maturity Treasury (CMT)

Margin
2%

Caps

Annual Adjustment Cap
1%

Lifetime Cap
5%

Initial Adjustment Cap
1%

Qualifying Rate
Note rate

Maximum Loan Amount
Up to the FHA Statutory Mortgage Limit and no greater than $417,000. High balance loans not permitted.

Financing Types
All financing types permitted, including streamline refinance.

NOTE: All refinances require a Net Tangible Benefit form and an LOX as to the reason for the refinance

Units
1-2 unit properties only
High Limit Area Loans

Higher maximum limits are available on FHA loans in certain areas. These increased limits are available to qualified borrowers living in or moving to areas with qualifying loan amounts greater than $271,050. **Note that loan limits have changed from 2013 to 2014 – both the county/MSA limits, and the loan amount ceilings.** The 2014 limits are effective with case numbers assigned on January 1, and valid through December 31, 2014. To determine the applicable county loan limit, check [https://entp.hud.gov/idapp/html/hicostlook.cfm](https://entp.hud.gov/idapp/html/hicostlook.cfm).

*Loan amounts greater than $417,000 must meet the following High Balance Loan Requirements.*

**Property Type**
1-2 unit residences, PUDs, or FHA-approved condos

**Maximum Loan Limits**
For case numbers assigned **prior to** January 1, 2014, the following limits apply:
- 1 unit up to $729,750
- 2 units up to $934,200

For case numbers assigned **on/after** January 1, 2014, the following limits apply:
- 1 unit up to $625,500
- 2 units up to $800,775

**NOTE:** Maximum Loan Limits are subject to county loan limits

**Loan Purpose**
- Purchase
- Rate/Term refinance
- Cash Out refinance

**NOTE:** No bankruptcy or foreclosure allowed in the last 7 years for a cash out refinance

**Documentation**
Full documentation is required. **Streamlines are not permitted.**

**Term**
30 year and 15 year fixed rate terms available

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**LTV**
FHA maximum LTVs are permitted

**Credit Score**
Minimum of 640 required. Any mortgage late payments are ineligible.

**Underwriting Method**
Loan must be approved through AUS. FHA High Balance Loans are not eligible for manual underwriting

**Appraisal**
A standard FHA appraisal will be required. MiMutual will run an AVM to confirm the appraised valuation

( Remainder of page intentionally left blank)
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, MiMutual 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
MiMutual must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a Refer rating. The MiMutual 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.
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 case file 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, MiMutual must document as a Refer risk class and is accountable for the credit and ratio warranties on these loans. MiMutual 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
An individual 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 Office of Governmentwide Policy’s System for Award Management (SAM) and HUD’s Limited Denial of Participation (LDP) list are available through FHA Connection.
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 on a purchase or a rate/term refinance, or in excess of 0x30 on a cash out refinance or an AUS Recommendation of Refer.

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
- For case numbers assigned prior to October 15, 2013, refer to Disputed Accounts section.
- For case numbers assigned on/after October 15, 2013, refer to Handling of Disputed Accounts section.

Upfront Disclosure Policy
At the time of loan submission, MiMutual 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. MiMutual 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.
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 submitted to underwriting.

**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.

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

**Declined**
A loan is declined only after all alternatives are explored. MiMutual 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 MiMutual prior to funding for underwriter approval or with the closed loan package as noted on the MiMutual Underwriting Report “Conditions to be Cleared at Closing”.

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## Mortgage Insurance Charts

**Upfront/Annual MIP CASE NUMBERS ASSIGNED On/After April 9, 2012**

**REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES**
**(INCLUDING STREAMLINE REFINANCES)**
**WITH TERMS \( >15 \) YEARS**

<table>
<thead>
<tr>
<th>Upfront</th>
<th>LTV</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.75%</td>
<td>&gt;95</td>
<td>1.25%</td>
</tr>
<tr>
<td>1.75%</td>
<td>( \leq 95 )</td>
<td>1.20%</td>
</tr>
</tbody>
</table>

**REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES**
**(INCLUDING STREAMLINE REFINANCES)**
**WITH TERMS \( \leq 15 \) YEARS**

<table>
<thead>
<tr>
<th>Upfront</th>
<th>LTV</th>
<th>Annual Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.75%</td>
<td>&gt;90</td>
<td>.60%</td>
</tr>
<tr>
<td>1.75%</td>
<td>( \leq 90 )</td>
<td>.35%</td>
</tr>
</tbody>
</table>

* If LTV is \( \leq 78\% \) on a loan with a 15-year term or less, no annual (monthly) MIP will be collected **for case numbers assigned prior to June 3\(^{rd} \), 2013.**

**Upfront/Annual MIP CASE NUMBERS ASSIGNED On/After June 11, 2012**

**REFERENCE CHART FOR UPFRONT/ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES**
**(INCLUDING STREAMLINE REFINANCES WHERE THE PREVIOUS CASE WAS ENDORSED AFTER MAY 31, 2009)**
**WITH TERMS \( >15 \) YEARS**

<table>
<thead>
<tr>
<th>Upfront Premium</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Annual Premium*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.75%</td>
<td>( \leq 625,500 )</td>
<td>&gt; 95.00%</td>
<td>1.25%</td>
</tr>
<tr>
<td>1.75%</td>
<td>( \leq 625,500 )</td>
<td>( \leq 95.00 ) %</td>
<td>1.20%</td>
</tr>
<tr>
<td>1.75%</td>
<td>Above $625,500</td>
<td>&gt; 95.00%</td>
<td>1.50%</td>
</tr>
<tr>
<td>1.75%</td>
<td>Above $625,500</td>
<td>( \leq 95.00 ) %</td>
<td>1.45%</td>
</tr>
</tbody>
</table>

**TERMS \( \leq 15 \) YEARS**

<table>
<thead>
<tr>
<th>Upfront Premium</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Annual Premium*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.75%</td>
<td>( \leq 625,500 )</td>
<td>&gt; 90.00%</td>
<td>.60%</td>
</tr>
<tr>
<td>1.75%</td>
<td>( \leq 625,500 )</td>
<td>( \leq 90.00 ) %</td>
<td>.35%</td>
</tr>
<tr>
<td>1.75%</td>
<td>Above $625,500</td>
<td>&gt; 90.00%</td>
<td>.85%</td>
</tr>
<tr>
<td>1.75%</td>
<td>Above $625,500</td>
<td>( \leq 90.00 ) %</td>
<td>.60%</td>
</tr>
</tbody>
</table>

* If LTV is \( \leq 78\% \) on a loan with a 15-year term or less, no annual (monthly) MIP will be collected **for case numbers assigned prior to June 3\(^{rd} \), 2013.**
STREAMLINE REFINANCE

UPFRONT/ANNUAL MIP CASE NUMBERS ASSIGNED On/After June 11, 2012

<table>
<thead>
<tr>
<th>Upfront</th>
<th>Annual Premium**</th>
</tr>
</thead>
<tbody>
<tr>
<td>.01%*</td>
<td>.55%*</td>
</tr>
</tbody>
</table>

* For all Forward Streamline Refinance transactions that are refinancing existing FHA loans that were endorsed on or before May 31, 2009, the endorsement date is on the Case Query screen in FHA Connection. This change is effective for case numbers assigned on or after June 11, 2012.

** If LTV is ≤ 78% on a loan with a 15-year term or less, no annual (monthly) MIP will be collected.

Annual MIP CASE NUMBERS ASSIGNED On/After April 1, 2013*

<table>
<thead>
<tr>
<th>Term &gt; 15 Years</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Previous MIP</th>
<th>New MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤ $625,500</td>
<td>≤ 95.00%</td>
<td>120bps</td>
<td>130bps</td>
</tr>
<tr>
<td></td>
<td>≤ $625,500</td>
<td>&gt; 95.00%</td>
<td>125bps</td>
<td>135bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,500</td>
<td>≤ 95.00%</td>
<td>145bps</td>
<td>150bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,500</td>
<td>&gt; 95.00%</td>
<td>150bps</td>
<td>155bps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Term ≤ 15 Years</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Previous MIP</th>
<th>New MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤ $625,500</td>
<td>78.01% - 90.00%</td>
<td>35bps</td>
<td>45bps</td>
</tr>
<tr>
<td></td>
<td>≤ $625,500</td>
<td>&gt; 90.00%</td>
<td>60bps</td>
<td>70bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,500</td>
<td>78.01% - 90.00%</td>
<td>60bps</td>
<td>70bps</td>
</tr>
<tr>
<td></td>
<td>&gt; $625,500</td>
<td>&gt; 90.00%</td>
<td>85bps</td>
<td>95bps</td>
</tr>
</tbody>
</table>

*Upfront MIP is not affected by this revision
*Additionally, Streamline Refinances endorsed on or before May 31, 2009 remain at the MIP levels as announced in ML 2012-04 (and described above)
The table below shows the previous and the new duration of annual MIP by amortization term and LTV ratio at origination:

<table>
<thead>
<tr>
<th>Term</th>
<th>LTV</th>
<th>Previous</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 15 years</td>
<td>≤ 78.00%</td>
<td>No Annual MIP</td>
<td>11 years</td>
</tr>
<tr>
<td>≤ 15 years</td>
<td>&gt; 78.00% – 90.00%</td>
<td>Cancelled at 78.00% LTV</td>
<td>11 years</td>
</tr>
<tr>
<td>≤ 15 years</td>
<td>&gt; 90.00%</td>
<td>Cancelled at 78.00%</td>
<td>Loan Term</td>
</tr>
<tr>
<td>&gt; 15 years</td>
<td>≤ 78.00%</td>
<td>5 years</td>
<td>11 years</td>
</tr>
<tr>
<td>&gt; 15 years</td>
<td>&gt; 78.00% – 90.00%</td>
<td>Cancelled at 78% LTV &amp; 5 years</td>
<td>11 years</td>
</tr>
<tr>
<td>&gt; 15 years</td>
<td>&gt; 90.00%</td>
<td>Cancelled at 78% LTV &amp; 5 years</td>
<td>Loan Term</td>
</tr>
</tbody>
</table>

Annual MIP CASE NUMBERS ASSIGNED On/After June 3, 2013

<table>
<thead>
<tr>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Previous MIP</th>
<th>New MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Amount</td>
<td>≤ 78.00%</td>
<td>0bps</td>
<td>45bps</td>
</tr>
</tbody>
</table>