



FHA Underwriting Guidelines

MICHIGAN MUTUAL UNDERWRITING PHILOSOPHY

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

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

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

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

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

Program Description

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

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

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

❖ Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available.
- 3/1 ARM and 5/1 ARM available.
- Minimum 640 credit score regardless of (AUS) decision.
- 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. Please see MMI's FHA High Limit Area Loans At-A-Glance for program criteria.
- DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable.
- Maximum 96.50% LTV on Purchase Transactions (Does not apply to purchase of HUD REO transactions – see HUD REO guidelines for \$100 down program).
- CLTV Maximums for purchase transactions must meet FHA requirements for subordinate financing on purchase transactions.
- See individual product descriptions below for CLTV limits on all Refinance Transactions.
- Loan must meet HUD's 90 day property flipping requirements.
- FHA Streamline(k) Limited Repair Program available (see Streamline(k) Repair Program Guidelines).

❖ Loan Restrictions

- MMI does not offer New Construction located within a Flood Zones
- MMI does not offer New Construction Condos, FHA Case Numbers on/after 02/01/2010
- MMI does not offer Cash out refinances > 85% LTV.
- MMI does not offer FHA Section 8 loans.
- MMI does not offer FHA Military Impact Loans.
- MMI does not offer FHA loans to Non-Profit Organization borrowers.

- MMI does not offer HOPE for Homeowner's Program.
- MMI does not offer HUD 184 Program – Indian Reservations.
- MMI does not offer FHA loans approved based on non-traditional credit history, (borrower must have traditional credit with Credit Scores).
- MMI does not offer FHA HECM's (Reverse Mortgages).
- MMI does not refinance loans that are restructured/in forbearance/short payoff loans.

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 Dwellings (PUDs).
- Townhome/Rowhome.
- Condominiums - See below requirements.
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables.
- Modular Homes – See MMI Glossary for distinction between Modular and Manufactured homes.

❖ Ineligible Collateral

- New Construction Condos & Condo Conversions
- New Construction located within a Flood Zones
- Mobile/Manufactured Homes.
- Agricultural; Commercial/Industrial use.
- Income producing properties/Mixed Use Properties.
- Leasehold Properties (title must be held in Fee Simple interest only).
- Properties currently listed for sale (refinances).
- Non-Owner Occupied Properties.
- 2nd Homes.
- Time-Share Units.
- Construction Financing.
- Properties vested in Life Estates/Trusts.
- Multiple dwellings on a single parcel of Land.

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

AMC (Appraisal Management Company) order process including FHA Case Number Assignment and FHA Connection. MMI will require that all FHA appraisals are ordered through one of our designated Appraisal Management Company's (AMC's). MMI will provide links on our website to order FHA appraisals.

1. Obtain FHA Case Number from the FHA Connection. FHA Connection will allow the order of FHA Case Numbers without the assignment of appraisers. Provide the FHA Case Number with your appraisal order. MMI will input the appraiser's information in the FHA Connection, at the time of the appraisal logging (this is done during the underwriting process).
2. Begin at the MMI website home page (www.michiganmutual.com) to order your appraisal through your assigned AMC.
3. Place FHA Appraisal order in the name of Michigan Mutual, Inc. as required by HUD/FHA (enter all pertinent data including payment information). All appraisals must be paid, with a credit card, at the time order is placed.
4. Upload any required documents such as the purchase agreement.
5. The AMC will schedule the appointment with the borrower or realtor as appropriate and complete the appraisal report.
6. Upon completion of the appraisal report the AMC will contact the broker via email notification. It is the broker's responsibility to obtain the original report from the AMC and submit the original appraisal to MMI at the time of underwriting.
7. MMI will require certification, from the AMC, (to be included with the appraisal) that the appraisal was ordered in accordance with HUD/FHA Appraiser Independence Requirements.

Please keep in mind the borrower's right to receive a copy of their appraisal (under ECOA the borrower has the right to request a copy of their appraisal report). If requested by the borrower it is the broker's responsibility to provide a copy of the appraisal to the borrower.

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

❖ **Appraisal Report Forms:**

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

❖ **Appraisal Rebuttal Process:**

1. Loan in processing stage: If the appraised value is such that processing of the loan cannot continue, it is the broker's responsibility to rebut the appraisal through the AMC's website. Ensure you provide supporting documentation such as comparables, recent listings, etc. **Under no circumstances are broker-s allowed to directly contact the appraiser.**
2. Loan in underwriting stage: If an underwriter is requesting additional comparables (as well as any clarifications and/or corrections), from the appraiser, as a requirement of loan approval then the MMI underwriter will condition the loan appropriately. It is the broker's responsibility to communicate through the AMC. **Under no circumstances are broker's allowed to directly contact the appraiser.**

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

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

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

Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. A new appraisal is required for each refinance 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.

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

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

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

When the Appraisal Update and/or Completion Report **May Not** be used:

- The property has declined in value.
- The building improvements that contribute value to the property cannot be observed from the street or public way.
- The exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated.
- The Appraisal Update Report may not be used when ordered by a lender who is not identified as an intended user in the original appraisal report (on transferred appraisal reports) unless the appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of the Uniform Standard of Professional Appraisal Practice (USPAP).
- The Appraisal Update Report may not be used on an appraisal that is expired (past 120 days old).

❖ **Repair Escrows:** MMI does allow repair escrows – see Repair Escrow guidelines for specific eligibility criteria.

❖ **Minimum Square Footage**

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

❖ **Acreage**

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

❖ **2nd Appraisal Requirements**

- As required by FHA in cases of property flipping (see purchase transactions section for additional requirements)

- ❖ **Attic:** It is the homeowner/seller’s responsibility to provide clear access to this area. FHA appraisers are required to observe the attic area.
- ❖ **Crawl Space:** There must be adequate access to the crawl space. The appraiser is required to make at a minimum 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 or/or water leaks, the borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser/borrower without any warranty or guarantees from HUD/FHA and/or MMI.

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

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

Link to Mortgagee Letter 2009-46A:

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46aml.pdf>

Link to Mortgagee Letter 2009-46B:

<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46bml.pdf>

Link to Mortgagee Letter 2009-46A & 2009-46B Frequently Asked Questions:

http://www.hud.gov/offices/hsg/sfh/condo/faqs_condo.pdf

Condominium Property Eligibility:

- Existing Construction only (all units, common elements and facilities within the project must be 100% complete and construction has been completed as evidenced by issuance of the final Certificate of Occupancy & the Homeowners Association has been turned over).
- Proposed and/or New Construction are not eligible.
- Conversions are not eligible.
- Condominium Hotel or “Condotel”, manufactured homes and co-ops are not eligible.
- Manufactured Home Condominiums and Houseboat projects are not eligible.
- Multi-dwelling unit condominiums (i.e. more than one dwelling per condominium unit) are not eligible.
- Any/all projects not deemed to be used primarily as residential are not eligible.
- Projects must consist of 2 or more units.
- **Site Condominiums** – Condominium project approval is not required for Site Condominiums. Site Condominiums are single family totally detached dwellings (no shared garages or any other attached building) encumbered by a declaration of condominium covenants or condominium form of ownership. Condominiums (including detached condominiums) that do not meet this definition will require project approval. The Uniform Residential Appraisal Report (Form 1004) will be required (the Individual Condominium Unit Appraisal Report (Form 1073) is no longer required and the Condominium Rider to the Mortgage/Deed of Trust (prepared by MMI) must be fully executed at closing. Site Condominium comparables should be used in completing the appraisal report. If the appraiser uses comparables other than site condos they must provide an explanation in the appraisal report.

Note: The case number assignment must reflect the property as a condo (select site condo in the drop down – a condo ID is not needed/required) and the case number suffix must be 724 for condo and 731 if an ARM condo.

Condominium Requirements

Note: If the word “condo” appears in the legal description, the property will be deemed a condo.

- 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 from FHA, the project is not eligible until the project is approved by HUD.

HUD Condominium Certifications/Questionnaire - A fully executed **Attachment C – Lender Certification For Individual Unit Financing** (see Mortgagee Letter 2009-46b) and the **MMI’s FHA Condominium Homeowner’s Association Questionnaire** (both are available on our website) are required at the time of initial loan submission. Per HUD it is the broker (originator’s) responsibility to certify (on Attachment C) that the unit in connection with the loan file has been verified to be in a project that to the best of their knowledge continues to meet all FHA condominium requirements. The certification must be on the broker’s company letterhead, signed by a company authorized representative (signature stamps or electronic signatures are not acceptable). These forms will be required at time of initial loan submission. Please make sure the Questionnaire you submit is accurate and properly completed in its entirety and fully executed by an authorized agent of the Homeowners Association. 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. The concentration level will be based on case numbers assigned on units in a project; FHA will not issue new case numbers once the 30 percent concentration level (plus a small tolerance to accommodate for some fall-out) has been reached in any particular development.
- For case numbers assigned on or after **December 7, 2009 through December 31, 2010** the FHA Concentration requirement will be increased temporarily to 50%. The FHA Concentration may be increased up to 100% if the project meets all of the basic condominium standards plus the additional items stated below:
 - a) The project is 100% complete and construction has been completed for at least one year, as evidenced by issuance of the final certificate of occupancy for the last unit conveyed (new construction is not eligible for this exception);
 - b) 100% of the units have been sold and no entity owns more than 10% of the units in the project (for fewer than 10 units, single entity may own no more than 1 unit);
 - c) The project's budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget.
 - d) Control of the Homeowner's Association has transferred to the owners; and
 - e) The owner-occupancy ratio is at least 50%.

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

- **FHA-to-FHA Transactions** - Project approval is not required for:
 - FHA-to-FHA Streamline Refinance Transactions or
 - FHA/HUD Real Estate Owned (REO) Transactions

❖ **Commercial/Industrial Zoning**

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

❖ **Properties listed for sale within the last 12 months (refinances)**

- Cash/Out transactions require the MLS 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, cancelled listing agreement 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 require the MLS to be cancelled prior to loan application date. The listing agreement, cancelled listing agreement 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 may pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.

❖ **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**

- For refinance transactions that are not already FHA insured, properties must be owned for a minimum 12 months in order to use the appraised value. Properties owned less than 12 months, the lesser of sales price/acquisition cost or appraised value will be used.
- New Construction/less than 1 year old versus existing construction will be determined by the date on the Certificate of Occupancy.
- Purchase transactions require the seller to be in title for a minimum of 90 days to be eligible for FHA financing.

❖ **Termite Inspections** – Wood destroying insects and other organisms can cause serious problems in the wood structural components of a house and may go undetected for a long period of time.

MMI requires a termite inspection on **existing properties** if any concerns are noted or observed within the loan file (such as):

- When called for in the sales or purchase agreement, or
- When the appraiser notes there is evidence of active infestation; or
- If required/mandated by State/Local jurisdiction

MMI requires a termite inspection on **new construction properties**:

- When called for in the sales or purchase agreement, or
- When the appraiser notes there is evidence of active infestation, or
- If required/mandated by State/Local jurisdiction

In all Atlanta Homeownership Center Jurisdictional States where properties are located in TIP Zones 1 & 2 the following are required:

- The builder must complete the form HUD-NPCA-99-A, Subterranean Termite Protection Builder's Guarantee (see New Construction Guidelines on MMI Website), providing a 1-year guarantee and indicating that one of the following accepted treatment methods was used:
 1. Bait system, OR
 2. 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
 3. 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
 4. 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 treatment must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA label instructions.

❖ **Water and Sewage Systems 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

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

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 the water supply relies upon a water purification system due to the presence of contaminants; or
- When there is evidence of:
 - Corrosion of pipes (plumbing)
 - Areas of intensive agriculture within ¼ mile
 - Coal mining or gas drilling operations within ¼ mile
 - Dump, junkyard, landfill, factory, gas station, or dry cleaning operation within ¼ mile
 - Unusually objectionable taste, smell or appearance of well water

Shared Well

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

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

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

Community Well

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

- Service will be continuous and cannot be stopped and/or interrupted.
- The rate of the service and that it is reasonable
- Identify the our property/borrowers have ownership rights
- The maintenance and expense of the well are 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.

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 checked for the following contaminants:

- Lead (First Draw)
- Nitrate (as Nitrogen)
- Nitrite (as Nitrogen)
- Total Nitrate/Nitrite
- Total Coliforms
- Fecal Coliforms or E Coli

The Minimum Water Quality Testing Parameters for HUD reflecting the Maximum Contaminant Levels allowed and the required treatments is posted on the MMI website (see Water Testing Requirements Chart).

Individual Sewage System (Septic) – a well 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

Distance Between The Well and the Septic System

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

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

DISTANCE SKETCH W/O 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 drainfield (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 other than a single family residence (i.e. the well cannot be within 10 feet of a commercial, industrial or multifamily building).

Credit

❖ Documentation Requirements

- **Verification of Institutional Mortgage history** – A current payoff is required (on all refinance transactions) and one of the following:
 - Verification of Mortgage dated within thirty days of closing.
 - If mortgage history is current on credit bureau and last reported date is within sixty days, and payoff shows current, no Verification of Mortgage is required. 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 month's bank statements showing payments.

- **Verification of Rental Payment history** – one of the following will be required:
 - VOR from an uninterested party.
 - 12 months canceled checks (front and back) or 12 consecutive month's bank statements showing payments.

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

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

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 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 Requirements

- **Bankruptcy:**

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

Chapter 13 bankruptcy

Currently in Chapter 13 Bankruptcy (BK) Repayment (BK not discharged) does not disqualify a borrower provided that one year of the payout period under the bankruptcy has elapsed and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). If a mortgage is included in the BK the most recent 12 month mortgage history reflecting all mortgage payments have been paid within the month due and the mortgage pay off statement reflecting zero (0) delinquent interest is required. In addition, the borrower must receive permission from the BK court to enter into the mortgage transaction.

Discharged Chapter 13 – If BK has been discharged within the last 12 months from date of loan application MMI will require the complete BK documents (with all schedules and pages) and the complete payment history reflecting all required payments made according to the plan (must have minimum 12 months paid through the plan).

- **Foreclosure/Deed-in-Lieu** – A borrower is not eligible for a new FHA-insured mortgage when during the previous three years he/she had real property that was foreclosed or has given a deed-in-lieu of foreclosure. The three years is calculated from the date of the foreclosure (sheriff's deed) or deed-in-lieu to the date of the loan application. Exceptions to the three year period (but not less than 2 years) may be granted if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower (such as death of a primary wage earner) and the borrower has re-established good credit since the foreclosure. HUD does not consider the inability to sell a property and/or divorce an extenuating circumstance. However, the situation in which a borrower's loan was current at the time of a divorce in which the ex-spouse received the marital property (per the divorce decree the ex-spouse is held liable for the mortgage) and the property was later foreclosed will not be considered in borrower's credit analysis.
- **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 CCC showing 0 X 30. In addition, a letter of authorization from the CCC Agency is required, allowing borrower to obtain new mortgage financing. CCC plan payment must be included in DTI calculation.
- **Credit Score:** MMI will require a minimum credit score of 640. MMI will take the middle score from the three reporting credit repositories. If only 2 of 3 scores report, the lower of the 2 scores will be used. Borrowers with only 1 credit score may be considered with traditional credit depth. MMI does not underwrite loans for borrowers with only non-traditional credit. *Note: At times non-traditional credit may be requested/utilized to supplement/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 (we don't accept non-traditional credit only although at times it may be requested to supplement/strengthen a borrower's credit profile) depending on depth of credit, the type of tradeline and length of time established. If you are in doubt email our scenario help desk (see our website) or contact your account executive. Submission of a full credit package including all income and asset information for underwriter review may be required.

- **Borrowers/Co-borrowers:**
 - **Occupying** – MMI requires a minimum 640 middle credit score for all borrowers.
 - **Non-Occupying Co-borrowers:** Are acceptable per FHA guidelines and require *all* borrowers to have a minimum 640 middle credit score (not allowed on purchase of HUD REO properties, on cash-out refinance transactions, or on mortgages for 2- to 4-unit properties if the LTV exceeds 75%). See Non-Occupying Co-Borrower guidelines below.

- **Accounts with no monthly payment reported:** For revolving and installment debt, MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided (for revolving accounts, the greater of 5% of the balance or \$10 will be used).

- **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 (e.g. in a divorce situation we require the divorce decree with the property settlement indicating which spouse obtains the marital property and that the other spouse is released from liability). 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. (In cases of Divorce when the Judgment for Divorce indicates the ex-spouse has received the marital property and is liable for the debt, Total Scorecard/DU Approve/Eligible transactions may only require the Judgment for Divorce/Divorce Decree in which case 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.

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

- **Recurring Obligations:** Debts lasting more than ten months must be included. The following must be included when computing the debt-to-income ratios for recurring obligations:

- Monthly housing expense, and
 - Installment debt lasting ten or more payments (see installment debt above), and
 - Child support or separate maintenance payments (such as alimony) lasting ten or more payments (see installment debt above), and
 - Revolving and/or Open-Ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within ten (10) months or less.
- **Projected Obligations:** If a debt payment, such as a student loan is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI unless the borrower provides written evidence that the debt will be deferred for 12 months from loan closing. MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided Similarly, balloon notes, “12 months same as cash”, etc. will be considered in the DTI.
- **Obligations Not Considered Debt:** Obligations *not* to be considered debt (or subtracted from the borrower’s gross income) for qualifying purposes include federal, state and local income taxes; FICA or other retirement contributions such as 401K contributions (including 401K Loans); union dues, child care; open accounts with zero balances, voluntary deductions to one’s bank/investment account, and accounts on credit with an ECOA status that indicates the borrower is an Authorized User.
- **Payment plans:** MMI will accept payment plans (in lieu of payoff) for collections/charge-offs, tax liens, etc., if the payment arrangement has been established for at least 12 months. However, if borrower has the ability to pay the account off with loan proceeds, account must be paid in full. Borrower must provide monthly repayment plan, acceptable 12 month payment history reflecting payments made according to plan with no history of late payments (no 30 day+ late payments) and borrower must qualify with monthly payment.
- **Subordinating a lien:** If a lien is being subordinated, MMI will require a fully executed subordination agreement prior to closing. Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 12 months. CLTV cannot exceed 97.75% on Rate/Term and 100% on Streamline transactions. Maximum 85% CLTV on Cash/Out transactions.

Employment/Income

- ❖ **Employment:** Generally borrowers must be employed for 2 years in the same line of work. MMI will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. **MMI will do a phone verification of employment on all loans within 5 days of closing.**
- **Hourly or salaried employees** (one of the following)
 - Two computer generated most recent year-to-date pay stub documenting one full month's earnings and last two years W-2's.
 - One computer generated most recent year-to-date pay stub documenting one full month's earnings and a signed Verification of Employment.
 - Non-computer generated or handwritten pay stubs require last two years W-2's and 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 and 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 and 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 Jobs/Part-Time Income received for less than two years may be acceptable and will be considered on a case-by-case basis.
- **Commission Income:** Commission (including borrower's paid, piece work/piece job, truckers paid per mile, etc.) income can be used to qualify if the borrower has received this income for the past two years and 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 Unreimbursed Employee Business Expenses below) must be subtracted from the gross income prior to calculating the borrower's housing and debt-to-income ratios.
- **1099 employees** (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 Verification of Employment no more than 90 days old at time of closing, showing year-to-date earnings.

- **Unreimbursed Employee Business Expenses/Automobile Allowances:** Unreimbursed Employee Business Expenses from Schedule 2106 must be deducted from the borrower's income.
 - Only the amount by which the borrower's automobile allowance exceeds the automobile expense may be used as income (the difference between the automobile allowance and the 2106 expense may be added to income if positive or must be treated as a liability if negative).
 - In addition, the borrower's auto loan payment must be counted as a debt and may not be offset by the automobile allowance.

- **Self-employed**
 - Last two years tax returns and signed year-to-date profit and loss statement.
P & L will be used to support a two year income average; however will not be used for qualifying purposes.

- **Non-taxable income will be grossed-up by 125%** - examples of non-taxable income are as follows:
 - Social Security
 - Child Support
 - Foster Care
 - Military Allowances such as: Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), clothing allowances, hazard pay, rations allowance, combat pay, flight pay, overseas pay, etc.

All of these income types require a minimum 3 years continuance to be used for qualifying.
Note: the following "other" income types are taxable benefits and may not be grossed-up:

 - Pension (in most circumstances)
 - Alimony

- **Social Security Income as Disability Income:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:
 - The initial Award Letter indicating the borrower has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
 - Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter.

- **Social Security Income received for a child:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:
 - The child's Award Letter 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 Income received for an adult child (18 or older) or parent:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter reflecting the borrower as payee/guardian, indicating the adult child/parent has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
 - Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter; and
 - Legal Guardianship documents reflecting the borrower as legal guardian for the adult child/parent are required.
- **Foster-Care Income** – Verify the foster-care income with:
- Letter of verification from the organization providing the income; and
 - Copies of the borrower's most recent 3 months bank statements confirming regular deposit of payments; and
 - Most recent 2 years tax returns with all schedules/pages (must document a 2 year history of receipt)
- **Short Term Disability/Workman's Comp:** Not eligible. No Exceptions. **Borrowers on maternity leave must be back to work as evidenced by a pay check stub with 30 days worth of earnings.**
- **Rental Income**
- If property acquired in previous tax year, tax returns will be required for documentation of rental income.
If property was acquired during the current tax year, a one year signed lease agreement is acceptable with evidence of security deposit received (cancelled check or bank statement verifying deposit). MMI will use the vacancy factor of 25% for all properties.
Principal residence being vacated in favor of another principal residence: rental income (reduced by the vacancy factor of 25% for all properties), on principal residence being vacated in favor of another principal residence may only be considered under one of the following circumstances:
 1. Relocations: 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 paid to the homeowner must be provided. or
 2. Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by a current (no more than 120 days old) residential appraisal. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.
Note: If the borrower's current principal residence is listed for sale or pending sale, and he/she is purchasing a new residence, both the current and proposed mortgage payments must be used in qualifying the borrower for the new mortgage loan (rental income may not be used for qualifying).
 - Subject Property Rental Income from Owner-Occupied 2-4 Units.
MMI will use the vacancy factor of 75% for all properties.

Assets

❖ Funds to Close

- **Borrower's own funds – MMI follows AUS findings for acceptable documentation.**
 - When using most recent two month's bank statements. Large deposits must be explained and documented. (monies for closing to be supported by bank statement dated within 30 days of closing)
 - 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.
 - Final HUD-1 from sale of current residence is acceptable documentation.
- **Cash Back on Purchases:** Not allowed, however items the borrower has paid outside of closing (i.e. appraisal, homeowner's insurance) may be reimbursable through seller contributions at the time of closing. Borrower must provide satisfactory documentation of payment for these services prior to closing.
- **Gift of Equity:** A gift of equity from a blood relative is acceptable (documentation of relationship may be required). Mortgage Payoff (if any) must reflect no more than 29 days delinquent at time of closing. Any history of major delinquencies (60 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.
- **Gift Funds:** An outright gift for the borrower's investment into the transaction is acceptable if the donor is a relative, the borrower's employer, or a close friend with a clearly defined and documented interest in the borrower. The gift funds cannot be provided by any person or entity with an interest in the sale of the property, including the seller, real estate agent or broker, builder, loan officer or any other entity associated with the transaction. **Evidence of relationship of donor must be acceptably documented.** Transfer of funds must be documented from the donor to the recipient by a copy of the cancelled gift check and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. If by Certified Check obtain copy of Certified Check as well as a bank statement showing the withdrawal of funds from the donor's bank account and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. **Cash gifts are not allowed per FHA guidelines.** The file must also contain an FHA Gift Letter which can be found on the MMI website.
- **Gift Funds/Grants by Charitable Organizations:** Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet FHA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

Assets, continued

- **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 signature loans, 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 repayment 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 or 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:** If the borrower intends to sell personal property items (cars, recreational vehicles, stamps, coins, baseball card collections, etc.) to obtain funds required for closing, the borrower must provide a satisfactory estimate of their worth, in addition to conclusive evidence the items have been sold. The estimated worth of the items being sold 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. Only the lesser of this estimate of value or the actual sales price is considered as assets to close.
- **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.)

Refinance Transactions

MMI does not refinance loans that have been modified, have forbearance agreements in place, or with short payoffs.

Mortgage Payoffs: All refinance transactions will require current payoffs (all mortgages) reflecting a maximum of 59 days interest prior to closing.

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 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 (okay to exceed the geographical statutory limit by the amount of any new UFMIP): Note: UFMIP Chart below.

Additional underwriting and eligibility criteria:

- The mortgage being refinanced must be current for the month due, e.g., 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 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 allowed 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, cancelled listing agreement 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 transactions may pose additional risk to MMI and therefore may be subject to additional documentation and/or limitations.

No Cash-Out Refinances/Rate & Term Refinances: 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 (okay to exceed the geographical statutory limit by the amount of any new UFMIP):

Note: UFMIP Chart below.

- 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, discount points (if any) and then subtract any refund of the UFMIP. If the sum of all draws of

an equity line of credit exceeds \$1000 within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in the new mortgage (or may be included in the new loan considered a cash-out refinance transaction).

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 whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

If the purpose of the new loan is to refinance an existing mortgage to buy out an ex-spouse's or other 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, e.g., 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-Borrower's 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 above for qualifying purposes (as non-occupying co-borrowers) 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 agreements must be cancelled prior to the loan application. The listing agreement, cancelled listing agreement 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 transactions pose additional risk to MMI and therefore may be subject to additional documentation and/or limitations.

For information on FHA Streamline Refinance Guidelines [Click Here](#)

Purchase Transactions

Note: UFMIP Chart below.

Fully executed Residential Purchase Agreement: All purchase transactions require this document to be signed 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 purchase agreement must be authorized by that entity.

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

Note: this disclosure is not required on bank/investor owned properties

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

Note: this disclosure is not required on bank/investor owned properties

Real Estate Certification: This disclosure signed by ALL parties involved in the transaction, borrower, seller, real estate agent or broker, etc...certifies that the terms and conditions of the sales contract are true to the best of their knowledge. Please refer to our website for a copy of this form.

Note: this disclosure is not required on bank/investor owned properties

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

For Your Protection Get a Home Inspection: HUD/92564-CN needs to be provided to the borrower. Evidence of this being received can be supported by a copy of it within the disclosure/application package.

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

FHA defines the

- . ***seller’s date of acquisition*** as the date of settlement of the seller’s purchase of that property, and
- . ***re-sale date*** as the date of execution of the sales contract by a buyer intending to finance a property with a FHA-insured loan.

Second Appraisal Requirements: these may be required on properties with significant increase

in value within 91 to 180 days.

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

12-Month Chain of Title: to be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale

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

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

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 a primary home with FHA-insured financing. Non-Occupying Co-Borrower's 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 above for qualifying purposes (as non-occupying co-borrowers) 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.

General Provisions

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

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

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

Non-Permanent Resident Aliens are 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). Lawful Non-Permanent Resident Alien status must have the following:

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

Note: Non Permanent Resident Aliens with Temporary Protected Status are not eligible

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 (INS 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.

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

- **Nicknames** - If the driver's license reflects Mike Smith and the Social Security Card (or other documentation within the loan file) reflects Michael Smith then the pertinent loan documentation must reflect the name Michael Smith.
- **Married Names** - If a borrower has recently married (or married during loan processing), the new married name will be utilized for all pertinent loan documentation. MMI will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social security card. If FHA Connection Case Number Social Security Number validation fails due to this reason MMI will order 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.

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

FHA Policy Limiting the Number of Mortgages Per Borrower: FHA will only allow the borrower to have one (1) FHA-insured mortgage. There are certain situations in which FHA will allow a borrower to obtain an additional mortgage with FHA-insured financing.

Note: 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 other 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. 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:
 1. Of the increase in dependents and the current property's failure to meet the family needs, and
 2. 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 judgment for divorce/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).

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

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

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

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

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

Mortgage Payoffs: All refinance transactions will require current payoffs (all mortgages) reflecting a maximum of 59 days interest prior to closing (short payoffs are not eligible on refinance transactions).

4506T Processing: MMI will require IRS transcripts for the most recent two tax periods including

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

General Provisions, continued

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

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

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

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

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 CAIVR for all borrowers via the 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:

General Provisions, continued

CAIVRS, continued

- Assumptions: If the borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted, the borrower is eligible, provided he/she can prove the loan was not in default at the time of the assumption.
- Divorce: A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. A mortgage history must be provided to evidence the mortgage was paid as agreed prior to the divorce or legal separation. However, if a claim was paid on a mortgage in default prior to the divorce, the borrower is not eligible.
- Bankruptcy: When the property was included in a bankruptcy that was caused by documentable extenuating circumstances beyond the borrower's control (such as the death of the principal wage earner or serious long-term uninsured illness), the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. The borrower must have demonstrated a documented ability to responsibly manage his/her financial affairs. Additionally, documentation must be provided that the borrower's current situation indicates that the events that led to the bankruptcy are not likely to recur. An elapsed period of less than two years, but not less than 12 months may be acceptable.

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

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

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

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

General Provisions, continued

Living Trusts: MMI does not underwrite or purchase loans titled in a Living Trust.

Borrowers Age: There is no maximum age limit for a borrower. The minimum age is 18.

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 manual 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 expense, 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.

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

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
- The borrower makes a large downpayment (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 and can be done so, absent retirement, death or job termination (only 60% of the vested balance of a 401K/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.

General Provisions, continued

Compensating Factors, continued

- 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.

Automated Underwriting Systems/Total Mortgage Scorecard

Approve/Eligible Risk Classification:

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

- The data entered into the AUS are 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 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; and Insufficient funds for closing.

Loans that receive a recommendation of "approve/ineligible" may still be eligible for FHA insurance. To achieve eligibility status, we 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/approve" recommendation such as when a mortgage amount exceeds statutory limits.

General Provisions, continued

Automated Underwriting Systems/Total Mortgage Scorecard, continued

Refer/Eligible Classification:

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

System Overrides and Manual Downgrades

A system override and/or manual downgrade of an "accept/approve" to a "refer" classification may be required if a particular loan application variable is revealed during loan processing.

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

- **FEDERAL ELIGIBILITY**

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

General Provisions, continued

Automated Underwriting Systems/Total Mortgage Scorecard, continued

- **Suspended and Debarred Individuals**

A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a FHA-insured mortgage. Both the General Services Administration (GSA) "List of Parties Excluded from Federal Procurement and Non-Procurement Programs" and HUD's Limited Denial of Participation (LDP) list are available through the 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 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/approve," no further documentation regarding the foreclosure is required.

- **Mortgage History**

Late mortgage payments in excess of 2X30 days late.

- **Bankruptcy**

Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within two years of loan application require a 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/approve," no further documentation regarding the bankruptcy is required.

- **Disputed Accounts**

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review.

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

Underwriting Status/Decisions:

- Pre-Qualification: 1003 has been uploaded or loan has been locked (no underwriting package had been submitted).
- Incomplete: Insufficient documentation was submitted for the loan file to be underwritten.
- Submitted: Loan package has been received, 1003 has been uploaded, and loan has been submitted to an underwriter.
- Suspended: Crucial documentation was missing from the submission for the underwriter to render a sound decision.
- Approved with Conditions: Underwriter has approved the loan with conditions which need to be met before the loan is “cleared to close”.
- Approved: Loan is approved, all underwriting conditions have been met and the loan is moved to pre-closing review.
- Withdrawn: Loan file was withdrawn by the borrower or the broker.
- Declined: Only after all alternatives are explored. MMI may make recommendations or offer a counter proposal regarding the terms and conditions required for loan approval.
- Clear to Close: All prior to closing conditions have been met and cleared by the underwriter and loan is ready to close. All “at closing” or “prior to funding” conditions must be forwarded to MMI prior to funding for underwriter approval or with the closed loan package as noted on the MMI Underwriting Report “conditions to be Cleared at Closing”.

**UP Front MIP CASE NUMBERS ASSIGNED On/After October 1, 2008 &
Before April 4, 2010**

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & FULL CREDIT QUALIFYING REFINANCES (NON-STREAMLINE) WITH TERMS >15 YEARS		
Up-front	LTV Ratio	Premium
1.75%	>95	.55%
1.75%	≤95	.50%

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & FULL CREDIT QUALIFYING REFINANCES (NON-STREAMLINE) WITH TERMS ≤15 YEARS		
Up-front	LTV Ratio	Premium
1.75%	>90	.25%
1.75%	≤90	-None-

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR STREAMLINE REFINANCES WITH TERMS >15 YEARS		
Up-front	LTV Ratio	Premium
1.50%	>95	.55%
1.50%	≤95	.50%

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR STREAMLINE REFINANCES WITH TERMS ≤15 YEARS		
Up-front	LTV Ratio	Premium
1.50%	>90	.25%
1.50%	≤90	-None-

**UP Front MIP CASE NUMBERS ASSIGNED On/After
April 5, 2010**

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS >15 YEARS		
Up-front	LTV Ratio	Premium
2.25%	>95	.55%
2.25%	≤95	.50%

REFERENCE CHART FOR UP-FRONT AND ANNUAL MIP FOR PURCHASE MORTGAGES & REFINANCES (INCLUDING STREAMLINE REFINANCES) WITH TERMS ≤15 YEARS		
Up-front	LTV Ratio	Premium
2.25%	>90	.25%
2.25%	≤90	-None-

**UP Front MIP CASE NUMBERS ASSIGNED On/After
October 4, 2010**

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

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