

## FHA Manufactured Home Guidelines

### Primary Residence

#### Purchase and Rate & Term Refinance

Units	Maximum Base LTV	Total LTV including UFMIP	Maximum CLTV	Minimum FICO	Maximum DTI
1	96.5%	98.25%	N/A	620	Per AUS or Manual UW Guidelines

#### Maximum Loan Amount (Continental US only)

- Find FHA Loan Limits at: <https://entp.hud.gov/idapp/html/hicostlook.cfm>
- [Single Family Housing Policy Handbook](#)

#### Upfront and Monthly MIP Term > 15 Years Endorsed Prior to 3-20-2023

Base Loan Amount	LTV	UFMIP	Monthly	Duration
≤ \$625,500	> 95.00%	1.75%	0.85%	Term of Loan
≤ \$625,500	90.01 – 95.00%	1.75%	0.80%	Term of Loan
≤ \$625,500	≤ 90.00%	1.75%	0.80%	11 years

- UFMIP must be 100% financed into the mortgage or paid entirely by cash. Partial financing is not allowed.
- Monthly Mortgage Insurance is required on all loans regardless of LTV or Loan Term.

#### Upfront and Monthly MIP Term > 15 Years Endorsed On or After 3-20-2023

Base Loan Amount	LTV	UFMIP	Monthly	Duration
≤ <span style="background-color: yellow;">\$726,200</span>	> 95.00%	1.75%	<span style="background-color: yellow;">0.55%</span>	Term of Loan
≤ <span style="background-color: yellow;">\$726,200</span>	90.01 – 95.00%	1.75%	<span style="background-color: yellow;">0.50%</span>	Term of Loan
≤ <span style="background-color: yellow;">\$726,200</span>	≤ 90.00%	1.75%	<span style="background-color: yellow;">0.50%</span>	11 years

- UFMIP must be 100% financed into the mortgage or paid entirely by cash. Partial financing is not allowed.
- Monthly Mortgage Insurance is required on all loans regardless of LTV or Loan Term.

### General Information

<b>General Description</b>	<ul style="list-style-type: none"> <li>30 year, fixed rate, fully amortizing loan designated specifically for Manufactured (Mobile) Housing. Manufactured Housing is defined as any dwelling unit built on a permanent chassis and attached to a permanent foundation system.</li> </ul>
<b>Special Fees</b>	<ul style="list-style-type: none"> <li>Manufactured Home Structural Engineer Certification: \$445 when required</li> <li>Foundation Certification \$445</li> </ul>
<b>Underwriting</b>	<ul style="list-style-type: none"> <li>Loans must be underwritten by a DE Underwriter</li> <li>All loans must be submitted through FHA Total Scorecard</li> </ul> <p><b>Ineligible</b></p> <ul style="list-style-type: none"> <li>Out of Scope</li> </ul>

### Borrower Eligibility

<b>Borrower Eligibility</b>	<p>The maximum number of Borrowers allowed on a single transaction is four.</p> <p>All borrowers must have a valid social security number and all borrowers must document 2 years of employment history. Social security number to be validated by one the following:</p> <ul style="list-style-type: none"> <li>Validation from SSA</li> <li>Social Security Card</li> <li>Valid tax transcripts</li> </ul> <p>Eligible</p> <ul style="list-style-type: none"> <li>US Citizen</li> <li>Permanent Resident               <ul style="list-style-type: none"> <li>Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>○ Copy of the Alien Registration Receipt Card (Resident Alien card), I-551</li> <li>• Limited Power of Attorney pertaining to title issues and foreclosure must be signed with closing documents. Per ML 10-14 FHA will accept electronic signatures on <u>third party documents only</u>. Third party documents are those that are <u>originated and signed outside of the mortgagee's control</u>, such as a sales contract.</li> </ul> <p>Ineligible</p> <ul style="list-style-type: none"> <li>• Non-Permanent Resident</li> <li>• Foreign Nationals</li> <li>• Inter Vivos Revocable Trust Agreement</li> <li>• Partnership</li> <li>• Limited Partnership or Corporation</li> <li>• Land Trusts</li> </ul>
<b>CAIVRS, LDP and GSA Search</b>	<p>Check the FHA Connection and document the results on the FHA Loan Underwriting Summary</p> <ul style="list-style-type: none"> <li>• A copy of the FHA Connection screen results for all searches must be in the loan file</li> <li>• If the name of any party to the transaction appears on any of the list below, the application is not eligible for mortgage insurance. (An exception may be made when a seller appears on the LDP list and the property being sold is the seller's principal residence).</li> </ul> <p><b>CAIVRS System (Credit Alert Interactive Voice Response System)</b></p> <ul style="list-style-type: none"> <li>• Clear CAIVRS must be obtained for all Borrowers, Co-Borrowers and Co-Signors on the transaction.</li> <li>• CAIVRS are not considered clear if the borrower is found to be presently delinquent on any Federal debt or has a lien (including taxes) placed against his/her property for a debt owed to the Federal government (including student loans), he/she is <b>not eligible</b> for an FHA mortgage until: <ul style="list-style-type: none"> <li>▪ The delinquent account is brought current, paid, or otherwise satisfied, <b>or</b></li> <li>▪ A satisfactory repayment plan is established between the borrower and the Federal agency owed, which is verified in writing, and a minimum of 3 payments have been made prior to credit approval. (see federal debt repayment plan section)</li> <li>▪ Student loans that show paid by government insurance must have proof in file that borrower has paid the account and it was not in fact paid by the government insurance.</li> </ul> </li> </ul> <p><b>LDP (Limited Denials of Participation)</b></p> <ul style="list-style-type: none"> <li>• Examine/Search the list for all parties to the transaction: all borrowers, seller(s), listing and selling real estate agents, loan officer and processor.</li> <li>• The appraiser, Termite Company and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched.</li> </ul> <p><b>GSA (Government Services Administration's List of Parties Excluded from Procurement or Non-procurement Programs)</b></p> <ul style="list-style-type: none"> <li>• Examine/Search the list for all parties to the transaction: all borrowers, seller(s), listing and selling real estate agents, loan officer and processor.</li> <li>• The appraiser, Termite Company and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched.</li> </ul>
<b>CAIVRS, LDP and GSA Search (cont.)</b>	
<b>Co-Borrowers</b>	<ul style="list-style-type: none"> <li>• Non-occupant co-borrowers and/or co-signors are not allowed.</li> </ul>
<b>Escrow Waivers</b>	<ul style="list-style-type: none"> <li>• Ineligible</li> </ul>
<b>Family Member Definition</b>	<p>Family member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:</p> <ul style="list-style-type: none"> <li>• child, parent, or grandparent <ul style="list-style-type: none"> <li>○ a child is defined as a son, stepson, daughter, or stepdaughter</li> <li>○ a parent or grandparent includes as step-parent/grandparent or foster parent/grandparent</li> </ul> </li> <li>• spouse or domestic partner</li> <li>• legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption</li> <li>• foster child</li> <li>• brother, stepbrother</li> <li>• sister, stepsister</li> <li>• uncle</li> <li>• aunt</li> <li>• son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower</li> </ul> <p>Note: Co-Borrower(s) with a long-standing relationship with the borrower do not meet the definition of family member and therefore maximum LTV is 75%.</p>

<b>Occupancy</b>	<ul style="list-style-type: none"> <li>• 1-Unit Primary Residence only</li> </ul>																																																																																	
<b>Higher Priced Mortgage Loans (HPML)</b>	<p>High Priced Mortgage Loans</p> <ul style="list-style-type: none"> <li>• Escrow account must be established and maintained for at least five (5) years.</li> <li>• Master Insurance Policy Exemption: <ul style="list-style-type: none"> <li>○ Insurance premiums are exempt for units in a condominium or PUD when the unit's property is covered by a master insurance policy.</li> </ul> </li> <li>• Income must be likely to continue for a period of 7 years (in lieu of 3 years). This includes income from all sources including but not limited to disability, social security, child support, etc.</li> </ul>																																																																																	
<b>Identity of Interest</b>	<p>An Identity-of-Interest transaction is a sale between parties with an existing business relationship or between family members including tenant/landlord relationships. Business relationship refers to an association between individuals or companies entered into for commercial purposes.</p> <ul style="list-style-type: none"> <li>• Identity-of-interest transactions on principal residences are restricted to a maximum LTV of 85%, including transactions where a tenant-landlord relationship exists at the time of contract execution.</li> <li>• Financing <u>above</u> 85 percent LTV is permissible if a borrower purchases as their principal residence: <ul style="list-style-type: none"> <li>○ The principal residence of another family member; or</li> <li>○ A property owned by another family member in which the borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</li> <li>○ An employee of a builder, who is not a family member, purchases one of the builder's new houses or models as a principal residence.</li> <li>○ A corporation transfers an employee to another location, purchases that employee's home, and then sells the home to another employee.</li> <li>○ A current tenant purchases the property where the tenant has rented the property for at least six months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</li> </ul> </li> </ul> <p>For the purpose of identity of interest transactions, refer to <a href="#">Family Member Definition</a>.</p>																																																																																	
<b>Maximum # of Properties Financed</b>	<ul style="list-style-type: none"> <li>• Maximum one property owned and/or financed, includes subject property.</li> </ul>																																																																																	
<b>Rebuttable Presumption</b>	<p>If the APR is greater than or equal to the APOR + the annual MIP + 115 basis points the loan has a Rebuttable Presumption of Compliance with ATR will require:</p> <ul style="list-style-type: none"> <li>• Borrower to provide Fully executed Budget Letter</li> <li>• Must meet Residual Income Requirements below:</li> </ul> <table border="1" data-bbox="342 1205 1481 1444"> <thead> <tr> <th colspan="5">Residual incomes for loan amounts &lt;\$80,000</th> </tr> <tr> <th>Family Size</th> <th>Northeast</th> <th>Midwest</th> <th>South</th> <th>West</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>\$390</td> <td>\$382</td> <td>\$382</td> <td>\$425</td> </tr> <tr> <td>2</td> <td>\$654</td> <td>\$641</td> <td>\$641</td> <td>\$713</td> </tr> <tr> <td>3</td> <td>\$788</td> <td>\$772</td> <td>\$772</td> <td>\$859</td> </tr> <tr> <td>4</td> <td>\$888</td> <td>\$868</td> <td>\$868</td> <td>\$967</td> </tr> <tr> <td>5</td> <td>\$921</td> <td>\$902</td> <td>\$902</td> <td>\$1,004</td> </tr> <tr> <td colspan="5" style="text-align: center;">\$75 for each additional family member up to 7</td> </tr> </tbody> </table> <table border="1" data-bbox="342 1474 1481 1713"> <thead> <tr> <th colspan="5">Residual incomes for loan amounts +&gt; \$80,000</th> </tr> <tr> <th>Family Size</th> <th>Northeast</th> <th>Midwest</th> <th>South</th> <th>West</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>\$450</td> <td>\$441</td> <td>\$441</td> <td>\$491</td> </tr> <tr> <td>2</td> <td>\$755</td> <td>\$738</td> <td>\$738</td> <td>\$823</td> </tr> <tr> <td>3</td> <td>\$909</td> <td>\$889</td> <td>\$889</td> <td>\$990</td> </tr> <tr> <td>4</td> <td>\$1,025</td> <td>\$1,003</td> <td>\$1,003</td> <td>\$1,117</td> </tr> <tr> <td>5</td> <td>\$1,062</td> <td>\$1,039</td> <td>\$1,039</td> <td>\$1,158</td> </tr> <tr> <td colspan="5" style="text-align: center;">\$80 for each additional family member up to 7</td> </tr> </tbody> </table> <p>To determine residual income:</p> <ul style="list-style-type: none"> <li>• Determine Gross Income minus Federal, State, Social Security, Medicare and Works Comp. <ul style="list-style-type: none"> <li>○ Calculator for deductions can be accessed at <a href="https://www.paycheckcity.com/calculator/salary">https://www.paycheckcity.com/calculator/salary</a></li> </ul> </li> <li>• Subtract from that all debt including childcare expenses.</li> <li>• Subtract from that the total housing payment plus maintenance and utilities.</li> <li>• The remaining amount is the residual income</li> </ul> <table border="1" data-bbox="342 1955 1481 1982"> <tr> <td style="text-align: center;"><b>Key to Geographic Regions on the Above Tables</b></td> </tr> </table>	Residual incomes for loan amounts <\$80,000					Family Size	Northeast	Midwest	South	West	1	\$390	\$382	\$382	\$425	2	\$654	\$641	\$641	\$713	3	\$788	\$772	\$772	\$859	4	\$888	\$868	\$868	\$967	5	\$921	\$902	\$902	\$1,004	\$75 for each additional family member up to 7					Residual incomes for loan amounts +> \$80,000					Family Size	Northeast	Midwest	South	West	1	\$450	\$441	\$441	\$491	2	\$755	\$738	\$738	\$823	3	\$909	\$889	\$889	\$990	4	\$1,025	\$1,003	\$1,003	\$1,117	5	\$1,062	\$1,039	\$1,039	\$1,158	\$80 for each additional family member up to 7					<b>Key to Geographic Regions on the Above Tables</b>
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	<b>Northeast</b>	Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
	<b>Midwest</b>	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota Wisconsin
	<b>South</b>	Alabama, Arkansas, Delaware, District of Columbia Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico South Carolina, Tennessee, Texas, Virginia West Virginia
	<b>West</b>	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

### Financing Types

<b>Purchase</b>	<ul style="list-style-type: none"> <li>• An existing manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date.</li> <li>• New Construction is ineligible.</li> <li>• The LTV ratio for a loan secured by a manufactured home that already exists on its foundation will be based on the lower of: <ul style="list-style-type: none"> <li>○ The sales price of the manufactured home and land or</li> <li>○ The current appraised value of the manufactured home and land.</li> </ul> </li> </ul>
<b>Rate &amp; Term Refinance (No Cash Out)</b>	<ul style="list-style-type: none"> <li>• The manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date.</li> <li>• A limited cash-out transaction involves the payoff of an existing mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered as separate liens). The maximum LTV ratio will be based on the lower of: <ul style="list-style-type: none"> <li>○ The current appraised value of the manufactured home and land; or</li> <li>○ If the manufactured home was owned by the borrower for less than 12 months on the loan application date and: <ul style="list-style-type: none"> <li>• If the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale), or</li> <li>• If the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.</li> </ul> </li> </ul> </li> </ul>
<b>Rate &amp; Term Refinance (No Cash Out)</b>	<p><b>New Construction</b> - See <a href="#">FHA New Construction Financing Job Aid</a> for requirements. New Construction refers to Properties that are:</p> <ul style="list-style-type: none"> <li>• Proposed,</li> <li>• Under Construction, and</li> <li>• Properties existing less than one year as defined below: <ul style="list-style-type: none"> <li>○ New construction for manufactured housing refers to a manufactured home that has been permanently erected on a site for less than one year prior to the case number assignment date.</li> <li>○ Properties that are Under Construction or Existing for Less than One Year are limited to a 90% LTV unless they meet specific requirements in FHA New Construction Financing Job Aid.</li> </ul> </li> </ul> <p><b>Ineligible Financing Types:</b></p> <ul style="list-style-type: none"> <li>• Non-arm's length transactions</li> <li>• FHA Streamline Refinance</li> <li>• Cash-Out Refinance</li> <li>• High Balance</li> <li>• ARM programs</li> </ul>
<b>Prepayment Penalty</b>	<ul style="list-style-type: none"> <li>• Not permitted</li> </ul>
<b>Temporary Buydowns</b>	<ul style="list-style-type: none"> <li>• Not Available</li> </ul>

### Credit

<b>Authorized User Accounts</b>	<p>Accounts for which the borrower is an authorized user must be included in the borrower's DTI unless;</p> <ul style="list-style-type: none"> <li>• The mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months.</li> <li>• If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI</li> </ul>
<b>Bankruptcy</b>	<p>Chapter 7:</p> <ul style="list-style-type: none"> <li>• A minimum of 2 years must have elapsed from the event to the new loan case number assignment date. Additionally, the borrower must have re-established good credit or chosen not to incur new credit obligations.</li> <li>• An elapsed period of less than 2 years, but not less than 12 months, may be acceptable if the borrower can show cause was from an extenuating circumstance beyond their control, such as a serious un</li> </ul>

insured illness or death of a wage earner and has since exhibited a documented ability to manage their financial affairs in a responsible manner. The borrower must document that their current situation indicates that the events which led to the bankruptcy are not likely to recur.

Chapter 13 in Repayment (requires Manual Underwrite):

- A minimum of 1 year of the payout period under the bankruptcy has elapsed and the borrower’s payment performance documents all payments made on time. In addition, the borrower must receive permission from the court to enter into a mortgage transaction.

Chapter 13 Discharge (No seasoning requirement if dismissed):

- > 2 years from discharge date: Follow AUS
- < 2 years from discharged date: Loan must be downgraded to a manual underwrite. Refer to [FHA Manual Underwriting Guidelines](#).
  - Must have a payment history even though bankruptcy is discharged.
  - If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, ML Mortgage must obtain the bankruptcy and discharge documents.
  - File must also be documented that the borrower’s current situation indicates that the events which led to the bankruptcy are not likely to continue.

**Collection Accounts**  
FHA does not require collection accounts to be paid off as a condition of the loan approval; however, FHA does recognize that collection efforts by the creditor for unpaid collections could affect the borrower’s ability to repay the mortgage. To mitigate the risk FHA is requiring the underwriter follow the below guidelines on collection accounts with an aggregate balance equal to or greater then \$2,000 as described below:

If...	And...	Then...
The Automated Underwriting System using the Total Scorecard rates the mortgage as Approve/Accept	The cumulative outstanding balance of all collections of all borrowers (and non-borrowing spouses) is less than \$2,000	The underwriter is not required to consider or evaluate collection accounts.
	The cumulative outstanding balance of all collections of all borrowers (including non-borrowing spouses) is equal to or greater than \$2,000	<ul style="list-style-type: none"><li>▪ Verify that the debt is paid in full at time of or prior to settlement using acceptable sources of funds;</li><li>▪ Verify that the borrower has made payment arrangements with the creditor and include the monthly payment in the borrower’s DTI; or</li><li>▪ If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include the monthly payment in the borrower’s DTI.</li></ul>

**Collection Accounts (cont.)**

**Collection accounts of a non-purchasing spouse in a community property state are included** in the \$2,000 cumulative balance. The UW must analyze the impact of the borrower’s ability to pay all collection accounts, unless excluded by state law.

**Capacity Analysis of Collections and Judgments**  
**Collections-** In an effort to mitigate risk FHA is requiring a capacity analysis of collection accounts with an aggregate balance equal to or greater than \$2,000. If the total outstanding balance of all collection accounts for all borrowers is equal to or greater than \$2,000, the underwriter must perform a capacity analysis as detailed below. Unless excluded under state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance.

Capacity analysis includes any of the following actions:

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

**Notes:**

- Borrowers may not pay down collections to bring the accumulative amount under \$2,000
- Medical collections and all charge offs are excluded from this guidance.

	<p><b>Judgments</b> – FHA requires judgments to be paid off before the loan is eligible for FHA insurance. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. The borrower must provide a copy of the agreement and evidence that payments were made on time in accordance with the agreement, <b>and</b> a minimum of three (3) months of scheduled payments have been made prior to the loan approval.</p> <p>Borrowers are not allowed to prepay scheduled payments in order to meet the required minimum of three (3) months of payments, and the payment must be included in the total DTI.</p> <p>FHA requires judgments of a non-purchasing spouse in a community property state to be paid in full, or meet the exception guidance for judgments stated above unless excluded by state law.</p>								
<b>Credit</b>	<p><b>AUS Approved loans</b></p> <ul style="list-style-type: none"> <li>• Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results</li> </ul> <p><b>Manual Underwrites</b></p> <ul style="list-style-type: none"> <li>• Must be AUS approved or meet <a href="#">FHA Manual Underwriting Guidelines</a></li> </ul>								
<b>Credit Analysis of Collections and Judgments</b>	<p>Collections and judgments may indicate a borrower’s disregard for credit obligations and must be considered in the credit worthiness analysis. The guidance below applies to loans with collection accounts and all judgments. Medical collections and accounts that have been charged off are excluded from this guidance.</p> <p><b>Documentation requirements</b> AUS Approved loan</p> <ul style="list-style-type: none"> <li>• There are no documentation or letter of explanation requirements for loans with collection accounts or judgments run through Total Score Card that receive an Approve/Eligible as these accounts have already been taken into account in the Total score card decision.</li> </ul> <p>For Manual underwritten loan (includes loans that receive approve/eligible and must be downgraded to manual underwrite) See Manual Underwriting Section for examples.</p> <p>The underwriter must document reasons for approving a mortgage when the borrower has collection accounts and judgments.</p> <p>Regardless of the amount of the outstanding collection accounts or judgments, the lender must determine if the collections or judgment was a result of:</p> <ul style="list-style-type: none"> <li>• The borrower’s disregard for financial obligations;</li> <li>• The borrower’s inability to manage debt; or</li> <li>• Extenuating circumstances</li> </ul> <p>The borrower must provide a letter of explanation with supporting documentation for each outstanding collection account and judgment. The explanation and supporting documentation must be consistent with other credit information in the file.</p>								
<b>Disputed Accounts</b>	<p>The existence of potentially inaccurate information on a borrower’s credit report resulting in a dispute must be reviewed by a DE underwriter. Accounts that appear as disputed on the borrower’s credit report are not considered in the credit score utilized by Total Scorecard in rating the application; therefore, FHA requires the lender to consider them in the underwriting analysis as described below.</p> <p><b>Disputed derogatory accounts indicated on the credit report (TOTAL)</b> Disputed derogatory credit account refers to disputed charge-off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.</p> <p>If the credit report utilized by TOTAL Scorecard indicates that the borrower is disputing derogatory credit account:</p> <ul style="list-style-type: none"> <li>• The borrower must provide a letter of explanation and documentation supporting the basis of the dispute.</li> <li>• The underwriter must analyze the documentation in the file to determine if the derogatory credit account should be considered in the underwriting analysis.</li> </ul> <table border="1" data-bbox="341 1690 1542 1974"> <thead> <tr> <th colspan="2" data-bbox="341 1690 1542 1722"><b>Guidance for TOTAL Scorecard Approve/Accept loans with disputed accounts</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="341 1722 690 1827">Disputed Derogatory Credit Accounts <math>\geq</math> \$1,000</td> <td data-bbox="690 1722 1542 1827">If the cumulative outstanding balance of the disputed derogatory credit accounts of all borrowers is equal to or greater than \$1,000, the mortgage application <b>must be downgraded to a “Refer”</b> and manually underwritten by a DE underwriter.</td> </tr> <tr> <td data-bbox="341 1827 690 1890">Disputed Derogatory Credit Accounts less &lt; \$1,000</td> <td data-bbox="690 1827 1542 1890">If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is less than \$1,000, a downgrade is <b>not</b> required.</td> </tr> <tr> <td data-bbox="341 1890 690 1974">Excluded from Cumulative Balance</td> <td data-bbox="690 1890 1542 1974"> <ul style="list-style-type: none"> <li>• Disputed medical accounts; and</li> <li>• Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use. To exclude these balances, the lender</li> </ul> </td> </tr> </tbody> </table>	<b>Guidance for TOTAL Scorecard Approve/Accept loans with disputed accounts</b>		Disputed Derogatory Credit Accounts $\geq$ \$1,000	If the cumulative outstanding balance of the disputed derogatory credit accounts of all borrowers is equal to or greater than \$1,000, the mortgage application <b>must be downgraded to a “Refer”</b> and manually underwritten by a DE underwriter.	Disputed Derogatory Credit Accounts less < \$1,000	If the cumulative outstanding balance of disputed derogatory credit accounts of all borrowers is less than \$1,000, a downgrade is <b>not</b> required.	Excluded from Cumulative Balance	<ul style="list-style-type: none"> <li>• Disputed medical accounts; and</li> <li>• Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use. To exclude these balances, the lender</li> </ul>
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must include a copy of the police report or other documentation from the creditor to support the status of the accounts.

**Note:** Disputed derogatory credit accounts of non-borrowing spouse in a community property state **are not included** in the cumulative balance for determining if the mortgage application is downgraded to a "Refer"

**Non-Derogatory disputed accounts and disputed accounts not indicated on the credit report (TOTAL)**

Non-derogatory disputed accounts include the following types of accounts:

- Disputed accounts with zero balance,
- Disputed accounts with late payments aged 24 months or greater, and
- Disputed accounts that are current and paid as agreed.

If a borrower is disputing non-derogatory accounts or is disputing accounts which are not indicated on the credit report as being disputed, the underwriter is not required to downgrade the application to a "Refer." However, the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay the loan. If the dispute results in the borrower's monthly debt payment utilized to calculate the total DTI is less than what is indicated on the credit report, the borrower must provide documentation to support the lower payments.

Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.

**Federal Tax Repayment**

IRS tax repayment plan

- If the borrower has a payment plan and there is **no** tax lien filed against the borrower:
  - Provide copy of written payment plan signed by the IRS and include payment amount in debt ratio.
    - If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability), the updated payment plan must be provided, and the new payment included in the debt ratio.
  - Verify payments made as agreed (*if applicable* – there is no minimum number of months required)
    - If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability) **and** the new payment is not yet due, the previous payment history must be reviewed to support the borrower's willingness and ability to repay.
- If the borrower has a payment plan and there **is** a tax lien filed against the borrower:
  - Provide copy of written payment plan signed by the IRS and include payment amount in debt ratio; and
  - Verify a minimum of 3 month's scheduled payments have been made as agreed (cannot be paid in advance)
    - If the borrower has recently established a payment plan and the payments are not yet due, the borrower is not eligible until a minimum of 3 payments have been made.
    - If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability), the borrower is not eligible until a minimum of 3 payments have been made at the new payment amount.
  - Lien must be subordinated to the new first mortgage.

**Note:** manual downgrade is not required.

**Federal Tax Repayment (cont.)**

**Foreclosure / Deed-in-Lieu / Pre- Foreclosure Sale**

A borrower is generally not eligible for a new FHA-insured mortgage if they had a foreclosure, deed-in-lieu of foreclosure or short sale within three years from the date of case number assignment. Exceptions may be granted if exception requirements below are met.

**Foreclosure/Deed in Lieu (TOTAL)**

A minimum of 3 years must have elapsed from the event to the new loan case number assignment date. If the credit report does not verify the date of the transfer of title through the foreclosure or deed-in-lieu of foreclosure, the lender must obtain the foreclosure or deed-in-lieu of foreclosure documents.

**Note:** The file must be manually downgraded to a Refer if the borrower had a foreclosure or deed-in-lieu of foreclosure in which title transferred from the borrower is within three years of case number assignment.

**Foreclosure/Deed in Lieu (MANUAL)**

An elapsed period less than 3 years may be acceptable if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious un insured illness or death of a wage earner and the borrower has re-established good credit since the foreclosure.

**Notes:**

- Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's mortgage was current at the time of his/her divorce, the ex-spouse received the property, and the mortgage was later foreclosed.
- The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.



<p><b>Foreclosure / Deed-in-Lieu / Pre- Foreclosure Sale (cont.)</b></p>	<p><b>Pre Foreclosure Sale / Short Sale (TOTAL)</b>  Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.</p> <p>The lender must document the passage of three years since the date of the short sale. If the short sale occurred within three years of the case number assignment date, the file must be downgraded to a Refer and manually underwritten. <b>Note:</b> The three-year period begins on the date of transfer of title by short sale.</p> <p>If the credit report does not verify the date of the transfer of title by short sale, the lender must obtain the short sale document.</p> <table border="1" data-bbox="341 430 1502 1045"> <thead> <tr> <th colspan="2" data-bbox="341 430 1502 462">Guidance for financing a new transaction following a Pre-Foreclosure (Short Sale)</th> </tr> <tr> <th data-bbox="341 462 1128 514">Delinquent Mortgage</th> <th data-bbox="1128 462 1502 514">Exception for a borrower current at time of short sale</th> </tr> </thead> <tbody> <tr> <td data-bbox="341 514 1128 1045"> <ul style="list-style-type: none"> <li>• Treat as foreclosure. A minimum three years must have elapsed from the event to the new loan case number assignment date.</li> <li>• If FHA insured loan, CAIVRS will reflect claim paid</li> <li>• Exceptions may be made to the three year requirement for isolated cases only if: <ul style="list-style-type: none"> <li>○ The Short Sale was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the Short Sale, and</li> <li>○ Credit was satisfactory prior to the circumstances that led to the default</li> </ul> </li> </ul> <p>Notes:</p> <ul style="list-style-type: none"> <li>• Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's loan was current at the time of his/her divorce, the ex-spouse received the property, and there was a subsequent Short Sale.</li> <li>• The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.</li> </ul> </td> <td data-bbox="1128 514 1502 1045"> <ul style="list-style-type: none"> <li>• All mortgage payments on the prior mortgage were made within the month due for the 12 month period preceding the short sale; and</li> <li>• Installment debt payments for the same period were also made within the month due.</li> </ul> </td> </tr> </tbody> </table>	Guidance for financing a new transaction following a Pre-Foreclosure (Short Sale)		Delinquent Mortgage	Exception for a borrower current at time of short sale	<ul style="list-style-type: none"> <li>• Treat as foreclosure. A minimum three years must have elapsed from the event to the new loan case number assignment date.</li> <li>• If FHA insured loan, CAIVRS will reflect claim paid</li> <li>• Exceptions may be made to the three year requirement for isolated cases only if: <ul style="list-style-type: none"> <li>○ The Short Sale was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the Short Sale, and</li> <li>○ Credit was satisfactory prior to the circumstances that led to the default</li> </ul> </li> </ul> <p>Notes:</p> <ul style="list-style-type: none"> <li>• Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's loan was current at the time of his/her divorce, the ex-spouse received the property, and there was a subsequent Short Sale.</li> <li>• The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.</li> </ul>	<ul style="list-style-type: none"> <li>• All mortgage payments on the prior mortgage were made within the month due for the 12 month period preceding the short sale; and</li> <li>• Installment debt payments for the same period were also made within the month due.</li> </ul>
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<p><b>Garnishments</b></p>	<p><b>Alimony, Child Support, and Maintenance (TOTAL)</b>  For alimony, if the borrower's income was not reduced by the amount of the monthly alimony obligation in the lender's calculation of the borrower's gross income. Include the monthly obligation in the calculation of the borrower' debt.</p> <p>Child support and maintenance are to be treated as a recurring liability and the lender must include the monthly obligation in the borrower's liabilities and debt.</p> <p>To verify the borrower's monthly obligation the following documentation is required:</p> <ul style="list-style-type: none"> <li>• Official signed divorce decree, separation agreement, maintenance agreement, or other legal order, and</li> <li>• Borrowers paystubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.</li> </ul> <p>The lender must calculate the borrower's monthly obligations from the greater of:</p> <ul style="list-style-type: none"> <li>• The amount shown on the most recent decree or agreement establishing the borrower's payment obligations; or</li> <li>• The monthly amount of the garnishment.</li> </ul>						
<p><b>Mortgage Credit Reject</b></p>	<p>If the Borrower has a mortgage credit reject from a previous lender the file must contain information to support the decision to override the previous reject. These will not be over turned without the documentation supporting the previous reject was erroneous or new information the previous lender may not have had.</p>						
<p><b>Mortgage Payment History</b></p>	<p>A borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note is not considered delinquent or late and shall be treated as if not in forbearance provided the forbearance plan is terminated at or prior to closing.</p> <p><b>Purchase and No-Cash Out Transactions</b>  Loan must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects:</p> <ul style="list-style-type: none"> <li>• Three or more late payments greater than 30 days;</li> <li>• One or more late payments of 60 days plus one or more 30-day late payments;</li> <li>• One payment greater than 90 days late or</li> <li>• That the borrower has made less than three consecutive payments since completion of a mortgage forbearance plan.</li> </ul>						



	<p>For both purchase and no cash-out refinance transactions, a mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.</p> <p>A mortgage that has been granted forbearance must utilize the payment history in accordance with the forbearance plan for the time period of forbearance in determining late housing payments, Where any mortgage in forbearance will remain open after the closing of the new FHA-insured mortgage, the forbearance plan must be terminated at or prior to closing. Any borrower who is granted a forbearance and is otherwise performing under the terms of the forbearance plan is not considered to be delinquent for purposes of credit underwriting.</p> <p><b>Required Documentation</b> Where a mortgage reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:</p> <ul style="list-style-type: none"> <li>• A copy of the modification or forbearance plan; and</li> <li>• Evidence of the payment amount and date of payments during the agreement terms.</li> </ul> <p><b>Note:</b> A forbearance plan is not required if the forbearance was due to the impacts of COVID-19.</p>
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<p><b>Non Purchasing Spouse in a Community Property State</b></p>	<p>Community Property States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin.</p> <p><b>Note:</b> Alaska is not considered a community property state however; the preliminary title report should be reviewed thoroughly to verify there are no exceptions that refer to a community property agreement or a community property trust. If there are exceptions, request the underlying documents from title and evaluate for community debt. If there is any community debt, NPS credit report is required.</p> <p>If property is located in community property state, or the borrower resides in a community property state the following requirements apply:</p> <ul style="list-style-type: none"> <li>▪ A credit report for the non-purchasing spouse (NPS) is required to determine joint and individual debts. The NPS's authorization to pull a credit report must be obtained. If the NPS refuses to provide authorization for the credit report, the loan must be rejected. <ul style="list-style-type: none"> <li>○ Even if the NPS does not have a social security number a credit report is required.</li> <li>○ The credit report for the NPS should not be a joint report, it must be obtained separately</li> </ul> </li> <li>▪ Obligations must be considered in the qualifying ratios. <ul style="list-style-type: none"> <li>○ Disputed debts of the NPS need not be counted provided the file contains documentation to support the dispute.</li> <li>○ Credit History of the NPS should not be the basis for declining the loan.</li> </ul> </li> </ul> <p>For specific requirements on how to handle non purchasing spouse's collections, judgments and/or disputed accounts, refer to the following sections of these guidelines:</p> <ul style="list-style-type: none"> <li>• Collection accounts and Judgments</li> <li>• Capacity Analysis</li> <li>• Disputed accounts</li> </ul>
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<p><b>Previously Modified Loan</b></p>	<p>When borrowers have a loan modification on any real estate owned, the following must be met:</p> <ul style="list-style-type: none"> <li>• Borrower must have made all payments as agreed per the modification agreement for the past 12 months or since the modification took place. The modification agreement cannot state any occupancy requirements. <ul style="list-style-type: none"> <li>○ If occupancy requirements are stated in the modification agreement than a letter must be obtained from the lender indicating it is ok to vacate the property.</li> </ul> </li> </ul> <p>See <a href="#">Mortgage Payment History Section</a> for guidance with mortgage payment forbearance for refinances.</p>
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<p><b>Qualifying Ratios</b></p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #92d050;"> <th colspan="2" style="text-align: center; padding: 5px;"><b>Total Scorecard and Manual Underwrites</b></th> </tr> </thead> <tbody> <tr> <td style="width: 25%; padding: 5px;"><b>30-Day Accounts</b></td> <td style="padding: 5px;"> <p>For 30-day accounts the lender must verify the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the past 12 months, the lender must use 5% of the outstanding balance in the DTI.</p> <ul style="list-style-type: none"> <li>• The lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The lender must use the credit report to document the balance and must document that funds are available to pay off the balance in excess of the funds and reserves required to close the loan.</li> </ul> </td> </tr> </tbody> </table>	<b>Total Scorecard and Manual Underwrites</b>		<b>30-Day Accounts</b>	<p>For 30-day accounts the lender must verify the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the past 12 months, the lender must use 5% of the outstanding balance in the DTI.</p> <ul style="list-style-type: none"> <li>• The lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The lender must use the credit report to document the balance and must document that funds are available to pay off the balance in excess of the funds and reserves required to close the loan.</li> </ul>
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**Qualifying Ratios  
(cont.)**

<p><b>Authorized User Accounts</b></p>	<p>Accounts for which the borrower is an authorized user must be included in the borrower's DTI unless:</p> <ul style="list-style-type: none"> <li>• The mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months.</li> <li>• If less than 3 payments have been required on the account in the previous 12 months the payment amount must be included in the DTI</li> </ul>
<p><b>Business Debt in Borrowers Name</b></p>	<p>Business debt in borrowers name refers to liabilities reported on the borrower's personal credit report, but payment for the debt is attributed to the borrower's business.</p> <p>When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio, unless all of the following documentation can be provided. (Note: account being excluded must be an account that is used for business that is in borrower personal name. (i.e. auto loan for auto needed for business etc. regular credit accounts i.e. student loans etc. are not considered business debt.)</p> <ul style="list-style-type: none"> <li>○ 12 months cancelled checks showing the business pays the debt directly to the lien holder; <b>and</b> <ul style="list-style-type: none"> <li>▪ (Note: business account used to pay these debts cannot be a co-mingled account i.e. if this is the only account borrower has and they pay all bills, groceries etc. through this account it is not an eligible account.)</li> </ul> </li> <li>○ Evidence the business writes the debt off through the business as evidenced by the most recent 1040's or business returns.</li> </ul>
<p><b>Closed-end Debt</b></p>	<p>Closed in debt that will be paid off within 10 months from the closing date may only be excluded from the ratios if:</p> <ul style="list-style-type: none"> <li>• Cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income, and</li> <li>• The borrower may not pay down the balance in order to meet the 10-month requirement.</li> </ul>
<p><b>Contingent Liability</b></p>	<p>A contingent liability (also known as co-signed obligations) refers to a liability that may result in the obligation to repay when a specific event occurs. Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability. Contingent liabilities must be included in the debt ratio unless:</p> <ul style="list-style-type: none"> <li>• The lender verifies and documents that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default (i.e., evidence other party making the payments is the party that is obligated on the liability); <b>or</b></li> <li>• 12 months cancelled checks showing other party obligated on the liability has made regular on-time payments during the previous 12 months; <b>and</b> <ul style="list-style-type: none"> <li>○ If any payments are made 30 days or more late in past 12 months, debt must be included in the DTI ratio regardless of number of cancelled checks provided.</li> </ul> </li> <li>• <b>Note:</b> If the cosigned liability is not included in the monthly obligation, the lender must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.</li> </ul>
<p><b>Contingent Liability – Mortgage Assumptions</b></p>	<p>Must obtain the agreement creating the contingent liability or assumption agreement deed showing transfer of title out of the borrower's name.</p>
<p><b>Deferred Obligations</b></p>	<p>Deferred obligations including loans in forbearance, (excluding student loans) regardless of when they will commence, must be included in the qualifying ratios and must use the actual payment, whenever available. If the actual monthly payment is not available, utilize the terms of the debt or 5% of the outstanding balance to establish the monthly payment. Must provide evidence of:</p> <ul style="list-style-type: none"> <li>• The deferral;</li> <li>• The outstanding balance;</li> <li>• The terms of the liability; and</li> <li>• The anticipated monthly payment. <ul style="list-style-type: none"> <li>○ If the above is not available than 5% of the outstanding balance must be utilized to establish the monthly payment.</li> </ul> </li> </ul>
<p><b>Installment Loans</b></p>	<p>Installment loans, including a loan secured by an interest in a timeshare, (excluding student loans) must use:</p> <ul style="list-style-type: none"> <li>• The monthly amount shown on the credit report- no further documentation is required.</li> </ul>

<b>Qualifying Ratios (cont.)</b>		<ul style="list-style-type: none"> <li>• The loan agreement; or</li> <li>• Payment statement</li> </ul> <p>If the credit report does not include a monthly payment; or the payment on the credit report is greater than the payment on the loan agreement or payment statement, the lender must obtain a copy of:</p> <ul style="list-style-type: none"> <li>• The loan agreement; or</li> <li>• Payment statement documenting the amount of the monthly payment.</li> </ul> <p><b>Note:</b> If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment loan, refer to Deferred Obligations section above.</p>	
	<b>Student Loans</b>	<p>Student loans must be included in the qualifying ratios, regardless of payment type or status of payment. If the payment used for the monthly obligation is less than the monthly payment reported on the borrower's credit report, the lender must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.</p> <ul style="list-style-type: none"> <li>• For outstanding student loans, regardless of payment status, use: <ul style="list-style-type: none"> <li>○ The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or</li> <li>○ 0.5% of the outstanding loan balance, when the monthly payment reported on the borrower's credit report is zero.</li> </ul> </li> <li>• When there is written documentation from the student loan program, creditor, or student loan servicer that indicates the loan balance has been forgiven, canceled, discharged, or otherwise paid in full, exclude the payment from the borrower's monthly debt calculation.</li> </ul>	
<b>Undisclosed Mortgage Debt</b>	<p><b>TOTAL</b></p> <p>When an existing debt or obligation that is secured by a Mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the lender must obtain one of the following that reflects an acceptable mortgage payment history in accordance with <a href="#">Mortgage Payment History Section</a>:</p> <ul style="list-style-type: none"> <li>• A copy of the note and either: <ul style="list-style-type: none"> <li>○ A bank statement; or</li> <li>○ Canceled checks;</li> </ul> </li> <li>• A credit report supplement; or</li> <li>• A verification of mortgage.</li> </ul> <p>The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:</p> <ul style="list-style-type: none"> <li>• A current delinquency;</li> <li>• Any delinquency within 12 months of the case number assignment date; or</li> <li>• More than two 30 Day late payments within 24 months of the case number assignment date.</li> </ul> <p>A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late mortgage payments.</p>		
<b>Verification of Rent (VOR)</b>	<p><b>Manual Underwrite</b></p> <p>Borrowers who state they are living rent free must:</p> <ul style="list-style-type: none"> <li>• Provide proof of ownership for the property <b>and</b></li> <li>• Obtain a letter from the property owner where they are residing indicating that the borrower has been living rent free, the amount of time the borrower has been living rent free and include the owner's contact information; <b>or</b></li> <li>• Provide fully completed VOR; <b>or</b></li> <li>• Provide credit supplement for the VOR</li> </ul>		
<b>Income</b>			
<b>Employment / Income</b>	<ul style="list-style-type: none"> <li>• Refer to <a href="#">Income Job Aid</a> for all income types</li> <li>• All loans require an IRS Form 4506-C <ul style="list-style-type: none"> <li>○ Form 4506-C must be processed per AUS</li> </ul> </li> <li>• One of the following must be obtained to verify current employment <ul style="list-style-type: none"> <li>○ The most recent pay stub and a written VOE covering two years; or</li> <li>○ Direct electronic verification of employment by a Third-Party Verification (TPV) vendor covering two years, subject to the following requirements: <ul style="list-style-type: none"> <li>▪ The borrower has authorized the lender to verify income and employment; and</li> <li>▪ The date of the data contained in the completed verification conforms with FHA requirements.</li> </ul> </li> </ul> </li> </ul>		

<p><b>Employment / Income (cont.)</b></p>	<ul style="list-style-type: none"> <li>○ Verbal or electronic re-verification of employment within 10 days prior to Note date is required. Electronic re-verification employment data must be current within 30 days of the date of the verification.</li> </ul> <p><b>Frequent Job Changes / Changes in Line of Work</b> If a borrower has changed jobs more than 3 times in the prior 12-month period OR the borrower has changed their line of work, the Lender must take additional steps to verify, document and analyze the stability of the borrower's income and obtain:</p> <ul style="list-style-type: none"> <li>● Transcripts of training and education demonstrating qualification for the new position, or</li> <li>● Employment documentation evidencing continual increases in income and/or benefits</li> </ul> <p><b>Borrowers returning to work after extended absences</b> A borrower's income may be considered effective and stable when recently returning to work after an extended absence (6 months or more) if he/she:</p> <ul style="list-style-type: none"> <li>● Is employed in the current job for six months or longer at the time of case number assignment; and</li> <li>● Can document a two-year work history prior to the absence from employment using: <ul style="list-style-type: none"> <li>○ Traditional employment verification, and/or</li> <li>○ Copies of W-2 forms or pay stubs.</li> </ul> </li> </ul> <p><b>Self-Employed borrowers</b></p> <ul style="list-style-type: none"> <li>● A P&amp;L and balance sheet is required if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal-year end tax return was filed by the borrower. <ul style="list-style-type: none"> <li>○ A Balance Sheet is not required for Schedule C borrowers.</li> </ul> </li> <li>● If income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&amp;L or signed quarterly tax returns obtained from the IRS are required.</li> <li>● Income from a business with a greater than 20% decline in income over the analysis period is not acceptable. <ul style="list-style-type: none"> <li>○ If using an AUS, the lender must downgrade to manual underwriting.</li> <li>○ If there has been a 20% or greater decline, the income is still deemed stable if: <ul style="list-style-type: none"> <li>▪ The reduction was the result of documented extenuating circumstances,</li> <li>▪ The income has been stable or increasing for at least 12 months, and</li> <li>▪ The borrower qualifies using the reduced income.</li> </ul> </li> </ul> </li> </ul>
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**Assets**

<p><b>Assets/Down Payment</b></p>	<p>Borrower Investment - Purchase transactions with Maximum Financing</p> <ul style="list-style-type: none"> <li>● Minimum down payment is 3.5%</li> <li>● The 3.5% cannot be met by borrowers-paid closing costs, prepaid expenses, commitment fees, discount points or premium pricing.</li> <li>● Salary Advance cannot be considered for cash to close</li> </ul> <p><b>Access Letter Requirements</b></p> <ul style="list-style-type: none"> <li>● If the account is joint with the borrowers' spouse/partner a 100% access letter is required</li> <li>● If the account is joint with other unrelated parties (i.e. parent, sibling etc.) 100% access letter is required.</li> </ul> <p><b>Documenting large/non-payroll deposits</b> Applies to both Accept/Approve from Total Scorecard and Manual Underwrites:</p> <ul style="list-style-type: none"> <li>● Verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1% of the property sales price or is excessive based on the borrower's history of accumulating savings, by obtaining: <ul style="list-style-type: none"> <li>○ A copy of the borrower's cancelled check;</li> <li>○ Certification from the deposit-holder acknowledging receipt of funds; or</li> <li>○ A VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or</li> <li>○ Direct electronic verification by a TPV vendor, subject to the following requirements: <ul style="list-style-type: none"> <li>▪ The borrower has authorized the lender to verify assets;</li> <li>▪ The date of the completed verification conforms with FHA requirements; and</li> <li>▪ The information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.</li> </ul> </li> <li>○ If the source of the earnest money deposit was a gift, then all Gift requirements apply and must be met</li> <li>○ If the deposit(s) are unable to be sourced, then the funds may be backed out; however, an explanation is still required</li> </ul> </li> <li>● For recently opened checking and savings accounts and recent individual deposits of more than 1% of the adjusted value, the lender must obtain documentation of the deposits and certify that no debts were incurred to obtain part or all of the minimum required investment. <ul style="list-style-type: none"> <li>○ For cumulative deposits less than 1% of the property sales price: Follow the AUS findings</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access and use of the funds.</li> </ul> <p>Manually underwritten loans and AUS downgrades:</p> <ul style="list-style-type: none"> <li>If there is a large increase in an account, or the account was recently opened the lender must obtain from the borrower a credible explanation and documentation of the source of the funds. <ul style="list-style-type: none"> <li>Large deposits are any deposit out of the ordinary for the borrower's income and habits (i.e., if the borrower is on direct deposit and there are other deposits other than borrower's income these must be explained and documented)</li> <li>If the deposit(s) are unable to be sourced or is cash they may be backed out; however, an explanation is still required.</li> <li>If the borrower does not hold the deposit account solely, all non-borrowers on the account must provide a written statement that the borrower has full access and use of the funds.</li> </ul> </li> </ul>
<b>Gift Funds</b>	<ul style="list-style-type: none"> <li>Refer to <a href="#">Asset Documentation Job Aid</a> for specific details.</li> <li>An outright gift of the cash investment is acceptable as long as it is coming from an acceptable source and meets the requirements below.</li> <li>In order for funds to be considered a gift, <b>there must be no expected or implied repayment</b> of the funds to the donor by the borrower.</li> <li>For AUS loans only: Any portion of the gift not used to meet closing requirements may be counted as reserves.</li> <li>Must provide proper documentation of gift from donor to borrower <ul style="list-style-type: none"> <li>Fully executed gift letter</li> <li>Donor ability</li> <li>Evidence of transfer and receipt of gift funds</li> </ul> </li> <li>Gift given in the form of Cash is not acceptable</li> <li>Acceptable sources include: <ul style="list-style-type: none"> <li>The borrower's family member (refer to <a href="#">Family Member definition</a>)</li> <li>The borrower's employer or labor union</li> <li>A close friend with a clearly defined and documented interest in the borrower</li> </ul> </li> </ul> <p><b>Note:</b> "Forgivable" second liens (i.e., no repayment if the homeowner remains in the home for five years) are <b>not</b> gifts and are subject to secondary financing requirements.</p> <p><b>Gifts of Equity</b></p> <ul style="list-style-type: none"> <li>Only family members may provide equity credit as a gift on Property being sold to other Family Members</li> <li>A Gift letter must be obtained signed and dated by the donor and borrower that includes the following: <ul style="list-style-type: none"> <li>The donor's name, address, and telephone number;</li> <li>The donor's relationship to the Borrower;</li> <li>The dollar amount of the gift; and</li> <li>A statement that no repayment is required</li> </ul> </li> </ul>
<b>Reserves</b>	<ul style="list-style-type: none"> <li>Per AUS or Manual Underwriting guidelines.</li> </ul>
<b>Secondary Financing</b>	<ul style="list-style-type: none"> <li>Loans with secondary financing are ineligible, including loans utilizing down payment assistance.</li> </ul>
<b>Seller Contributions</b>	<p>Maximum of 6%. Limited to the following items:</p> <ul style="list-style-type: none"> <li>Discount points</li> <li>Seller-paid closing costs, including any items paid outside of closing (POC)</li> <li>Prepaid Expenses</li> <li>Upfront MIP when it is not financed</li> </ul>
<b>Property</b>	
<b>Appraisal Requirements</b>	<ul style="list-style-type: none"> <li>Full interior and exterior appraisal must be completed using Manufactured Home Appraisal Report Form 1004C. The appraisal must indicate evidence of both the HUD Data Plate/Compliance Certificate and the HUD Certification Label. If HUD Data Plates are missing, verify at <a href="https://www.cwlend.com/contentimages/1457895694/Private_Transfer_Fee_Job_Aid.pdf">https://www.cwlend.com/contentimages/1457895694/Private_Transfer_Fee_Job_Aid.pdf</a></li> <li>Appraiser must use a minimum of three comparable sales of similar manufactured homes</li> <li>A detailed and supported cost approach to value is required on all Manufactured Home appraisals</li> </ul> <p>The following are ineligible:</p> <ul style="list-style-type: none"> <li>If the site or manufactured home is substantially non-conforming with the neighborhood</li> <li>Creating comparable sales by combining vacant land sales with the contract purchase price of the home. This may only be used as additional supporting documentation</li> </ul>
<b>Private Transfer Fee</b>	<ul style="list-style-type: none"> <li>Also referred to as a Community Transfer Fee. Refer to <a href="#">Private Transfer Fee Job Aid</a></li> </ul>

<b>Escrow Repair</b>	<ul style="list-style-type: none"> <li>• Eligible on HUD REO with escrow repair only. See HUD REO Guidelines below.</li> </ul>
<b>Home Foundation Inspection Report</b>	<ul style="list-style-type: none"> <li>• A foundation certification by a licensed professional engineer to validate the foundation meets all FHA/HUD codes. This inspection report <u>must be in the file at time of underwrite.</u></li> </ul>
<b>Property Flipping Restriction</b>  <b>Property Flipping Restrictions (cont.)</b>	<ul style="list-style-type: none"> <li>• Re-sales occurring 90 days or less following seller acquisition are not eligible.</li> <li>• Re-sales occurring 91-180 days with 100% or more increase in value since seller acquisition must include a second appraisal. <ul style="list-style-type: none"> <li>○ If the second appraisal supports a value of the property that is more than 5% lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.</li> </ul> </li> </ul> <p><b>Note:</b> The Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured mortgage for the resale of the property.</p> <p><b>Exceptions to time restrictions on resale above do not apply to the following and must be supported in the loan file when submitted for insurance:</b></p> <ul style="list-style-type: none"> <li>• Properties acquired by an employer or relocation agency in connection with the relocation of an employee;</li> <li>• Resales by HUD under its REO program;</li> <li>• Sales by other U.S. government agencies of single family properties pursuant to programs operated by these agencies;</li> <li>• Sales of properties by nonprofits approved to purchase HUD owned single family properties at a discount with resale restrictions;</li> <li>• Sales of properties that were acquired by the sellers by inheritance;</li> <li>• Sales of properties by state and federally-chartered financial institutions and government sponsored enterprises (GSE);</li> <li>• Sales of properties by local and state government agencies; and</li> <li>• Sales of properties within PDMDAs, only upon issuance of a notice of an exception from HUD.</li> </ul> <p><b>Resale Occurring 91 days - 180 days following acquisition:</b></p> <ul style="list-style-type: none"> <li>• If the resale price is 100% or more than the seller’s acquisition cost a second appraisal is required even if there is documentation retained in the file that supports the cost and extent of rehabilitation. <ul style="list-style-type: none"> <li>○ Example: seller acquired the property for \$40,000 and is reselling for \$80,000.</li> </ul> </li> </ul> <p><b>181 days – 12 months – Standard guidelines apply</b></p>
<b>Property Requirements</b>	<p>Must be a one-unit dwelling comprised of multiple sections (multi-wide Manufactured Home) – No single wide</p> <ul style="list-style-type: none"> <li>• Minimum 600 square feet</li> <li>• Maximum of 10 acres – <ul style="list-style-type: none"> <li>○ Exceptions for properties with &gt; 10 acres may be requested by contacting the Exception Desk. Decision will be based on the appraisal. Properties cannot contain additional dwelling(s) and may not be income producing.</li> </ul> </li> <li>• Property must be attached to a permanent foundation system and permanently connected to the septic or sewage system, in addition to being permanently connected to all necessary utilities (water, electricity, gas, service, etc.)</li> <li>• Must not have been installed or occupied previously at any other location or site</li> <li>• Property must have been existing in place for at least 12 months prior to application</li> <li>• The land where the manufactured home rests must be owned by the borrower in fee simple</li> <li>• Must be a one-unit dwelling legally classified as real property</li> <li>• The towing hitch, wheels, and axles must be removed</li> <li>• Manufactured home must assume the same characteristics of site-built housing</li> <li>• Must have sufficient square footage / room dimensions to be acceptable to purchasers in the subject market area</li> <li>• Additions or structural changes to the manufactured home requires a structural engineer cert. <ul style="list-style-type: none"> <li>○ Typical porches and decks installed at time of siting, as well as adjacent carports and garages are allowed with structural engineer cert.</li> </ul> </li> <li>• Must have been built in compliance with Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 as amended and in force at the time the home is manufactured and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by: <ul style="list-style-type: none"> <li>○ HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer’s name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit including a list of factory-installed equipment; and</li> <li>○ HUD Certificate Label (sometimes referred to as a HUD “seal” or “tag”) – A metal plate located on the exterior of each section of the home</li> </ul> </li> <li>• Must be located on publicly maintained road and be hooked up to a public water source</li> </ul>

	<p><b>Ineligible</b></p> <ul style="list-style-type: none"> <li>• Condo manufactured housing</li> <li>• Co-op manufactured housing</li> <li>• HUD Repo's</li> <li>• Leasehold Property</li> <li>• Manufactured Home in parks</li> <li>• Manufactured Home that has been moved from original installation (re-sitting)</li> <li>• Properties with wells, cisterns, spring fed water systems, or hauled water, etc.</li> </ul>
<b>Termites</b>	<p>Termite / Pest inspection and clearance is required if:</p> <ul style="list-style-type: none"> <li>• Appraiser indicates there may be active infestation (i.e., mention of dry rot, exposed warped wood, etc.) OR</li> <li>• Settlement Statement reflects fees for termite report being paid through escrow.</li> </ul>
<b>Closing</b>	
<b>Closing Requirements</b>	<ul style="list-style-type: none"> <li>• If applicable state law permits, any Certificate of Title must be surrendered to the state. Documentation must be included in the loan file showing that the Certificate of Title has been surrendered. If the Certificate of Title has not been surrendered, the loan is not eligible.</li> <li>• Confirm the property is legally classified as real property, on a permanent foundation, and owner owns both land and manufactured home</li> <li>• ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufactured homes to be treated as real property</li> <li>• Deed of Trust (or other security instrument) must include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description must include the serial or VIN number for each unit or section, make, model, size, and any other information required by applicable law to definitively identify the manufactured home.</li> <li>• Affidavit of Affixture – Borrower and Lender must sign and notarize acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage. Affidavit must be recorded simultaneously with security instrument.</li> </ul>
<b>Flood Insurance</b>	<p><b>(ML 2009-37) Flood Insurance – LOMA/LOMR/Elevation Certificate</b></p> <ul style="list-style-type: none"> <li>• 24 CFR 203.43f (c) (i) and (d) (ii) require that the finished grade level beneath the manufactured home shall be at or above the 100-year return frequency flood elevation. If any portion of the property improvements (the dwelling and related structures/equipment essential to the property value and subject to flood damage) for both new and existing manufactured homes are located within a SFHA, the property is not eligible for FHA mortgage insurance without: (1) a FEMA issued LOMA or LOMR (in these cases, neither an elevation certificate nor flood insurance is required) or (2) an elevation certificate prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100 year return frequency flood elevation. <b>When utilizing an elevation certificate, the property remains in an SFHA and flood insurance is required.</b></li> </ul>



# FHA Manual Underwriting

## General Information

A manual downgrade becomes necessary if additional information, not considered in the AUS/ TOTAL decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an “accept” or “approve”.

Some examples of why a loan may be considered a “Manual Underwrite”:

- AUS Refer if the reason for the refer finding can be overturned with documentation.
- Inaccuracies in credit reporting

Manually underwritten loans include:

- Loans involving borrowers without a credit score which were not scored against FHA’s TOTAL Scorecard;
- Loans receiving a Refer scoring recommendation from FHA’s TOTAL Scorecard; and
- Loans receiving an Accept scoring recommendation from FHA’s TOTAL Scorecard but which have been downgraded to a Refer by the underwriter.
- 620 and above – follow Manual Underwriting Guidelines below

**NOTE:** When a loan receiving an Accept scoring recommendation is downgraded to a Refer, the loan must be underwritten in accordance with all provisions of these guidelines.

## Compensating Factors

Compensating Factor	Documentation Requirements
<b>Verified and Documented Cash Reserves</b>	<p>Verified and documented cash reserves from borrowers own funds can be used as a compensating factor subject to the following requirements:</p> <ul style="list-style-type: none"> <li>• 1-2 Units: Reserves equal to or exceed 3 total monthly mortgage payments</li> <li>• 3-4 Units: Reserves equal to or exceed 6 total monthly mortgage payments</li> </ul> <p>Funds and/or “assets” that are <b>not</b> to be considered as cash reserves include:</p> <ul style="list-style-type: none"> <li>• The total funds required to close the Mortgage;</li> <li>• Gifts;</li> <li>• Equity from another property;</li> <li>• Borrowed funds; and</li> <li>• Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the loan transaction.</li> </ul> <p><b>Retirement Accounts</b> A portion of borrower’s retirement accounts (IRA, Thrift Savings Plan, 401k, and Keogh accounts) may be used to calculate cash reserves, subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• To account for withdrawal penalties and taxes, only 60% of the vested amount of the account, less any outstanding loans, may be used, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.</li> <li>• Obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the borrower’s retirement accounts, the borrower’s eligibility for withdrawals, and the terms and conditions for the withdrawal.</li> </ul> <p>If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.</p>
<b>Minimal Increase in Housing Payment</b>	<ul style="list-style-type: none"> <li>• The new total monthly mortgage payment does not exceed the current total monthly housing payment by more than \$100 <b>or</b> 5%, <i>whichever is less</i>; <b>and</b></li> <li>• There is a documented 12 month housing payment history with no more than one 30 day late payment.</li> <li>• In cash out transactions <i>all</i> payments on the mortgage being refinanced must have been made within the month due for the previous 12 months</li> <li>• If the borrower has no current housing payments this cannot be a compensating factor</li> </ul>

<b>Compensating Factors (cont.)</b>	<b>No Discretionary Debt</b>	<ul style="list-style-type: none"> <li>The borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;</li> <li>The credit report shows established credit lines in the borrower's name open for at least 6 months; <b>and</b></li> <li>The borrower can document that these accounts have been paid off in full monthly for at least the past 6 months.</li> <li>Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least 6 months, or who cannot document that all other accounts are paid off in full monthly for at least the past 6 months do not qualify for this compensating factor.</li> <li>Credit lines not in the borrower's name but for which he or she is an authorized user do not qualify for this compensating factor.</li> </ul>
	<b>Significant Additional Income Not Reflected in Gross Effective Income</b>	<p>Additional income from bonuses, overtime, part-time or seasonal employment that is not reflected in gross effective income can be cited as a compensating factor subject to the following requirements</p> <ul style="list-style-type: none"> <li>Verify and document that the borrower has received this income for at least one year, and it will likely continue; <b>and</b></li> <li>Document that if the additional income were included in gross effective income, it is sufficient to reduce the qualifying ratios to not more than 37/47.</li> <li>Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.</li> <li>This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.</li> </ul>
	<b>Residual Income</b>	Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the <a href="#">Table of Residential Incomes by Region</a> found below.
<b>Evaluating Credit</b>	<p>The underwriter must examine the borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the borrower's creditworthiness. Lenders must not consider the credit history of a non-borrowing spouse.</p> <p>The underwriter must evaluate the borrower's payment histories in the following order: (1) Previous housing expenses and related expenses, including utilities; (2) Installment debts; and (3) Revolving accounts.</p> <p><b>Satisfactory Credit</b></p> <ul style="list-style-type: none"> <li>The underwriter may consider a borrower to have an acceptable payment history if the borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-day late mortgage payments or installment payments in the previous 24 months.</li> <li>The underwriter may approve the borrower with an acceptable payment history if the borrower has no major derogatory credit on revolving accounts in the previous 12 months.</li> <li>Major derogatory credit on revolving accounts must include any payments made more than 90 days after the due date, or three or more payments more than 60 days after the due date.</li> </ul> <p><b>Payment History Requiring Additional Analysis</b></p> <ul style="list-style-type: none"> <li>If a borrower's credit history does not reflect satisfactory credit as stated above, the borrower's payment history requires additional analysis.</li> <li>The lender must analyze the borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The lender must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.</li> <li>The underwriter may only approve a borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.</li> </ul> <p><b>Payment History on Housing Obligations</b></p> <p>Housing obligations/mortgage payment refers to the monthly payment due for rental or properties owned.</p> <ul style="list-style-type: none"> <li>A mortgage payment is considered delinquent if not paid within the month due. However, a borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note is not considered delinquent or late and shall be treated as if not in forbearance provided the forbearance is terminated at or prior to closing.</li> <li>The lender must determine the borrower's housing obligation payment history through: <ul style="list-style-type: none"> <li>The credit report;</li> <li>Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the borrower);</li> </ul> </li> </ul>	

**Evaluating Credit (cont.)**

- Verification of mortgage received directly from the mortgage servicer; or
- A review of canceled checks that cover the most recent 12-month period.
- The lender must verify and document the previous 12 months' housing history. For borrowers who indicate they are living rent-free, the lender must obtain verification from the property owner where they are residing that the borrower has been living rent-free and the amount of time the borrower has been living rent free.
- For both purchase and no cash-out refinance transactions, a mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of the modification in determining late housing payments. In addition, where a mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.
- A mortgage that was subject to mortgage payment forbearance must utilize the mortgage payment history in accordance with the forbearance plan for the time period of the forbearance in determining late housing payments.
- Any borrower who is granted a forbearance and is otherwise performing under the terms of the forbearance plan is not considered to be delinquent for purposes of credit underwriting.
- A mortgage that reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:
  - A copy of the modification or forbearance plan; and
  - Evidence of the payment amount and date of payments during the forbearance term.

Note: A forbearance plan is not required if the forbearance was due to the impacts of COVID-19.

**Payment History Requirements (No Cash-Out Refinances)**

- For all mortgages on all properties with less than six months of mortgage payment history, the borrower must have made all payments within the month due.
- For all mortgage on all properties with greater than six months history, the borrower must have made all mortgage payments within the month due for the six months prior to case number assignment and have no more than one 30-day late payment for the previous six months for all mortgages.
- A borrower who was granted mortgage payment forbearance must have:
  - Completed the forbearance plan on the subject property; and
  - Made at least three consecutive mortgage payments within the month due on the mortgage since completing the forbearance plan.
- If the mortgage on the subject property is not reported in the borrower's credit report, the lender must obtain a verification of mortgage to evidence payment history for the previous 12 months.
- Where a mortgage reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:
  - A copy of the modification or forbearance plan; and
  - Evidence of the payment amount and dates of payments during the forbearance term.

Note: a forbearance plan is not required if the forbearance was due to the impacts of COVID-19.

**Ratios**

The qualifying ratios for borrowers with no credit scores are computed using income only from borrowers occupying the property and obligated on the mortgage. Non-occupant co-Borrower income may not be included.

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios	Acceptable Compensating Factors
620 and above	31/43	No compensating factors required.  Energy Efficient Homes may have stretch ratios of 33/45.
620 and above	37/47	One of the following: <ul style="list-style-type: none"> <li>• 3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit;</li> <li>• Minimal increase in housing payment; or</li> <li>• Residual income</li> </ul>
620 and above	40/40	No discretionary debt.
620 and above	40/50	<b>Two</b> of the following: <ul style="list-style-type: none"> <li>• 3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit;</li> <li>• Minimal increase in housing payment;</li> <li>• Significant additional income not reflected in Effective Income*; and/or</li> <li>• Residual income.</li> </ul>

**Ratios (cont.)**

**\*Note: Significant Additional Income Not Reflected in Effective Income**

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

**Reserves**

Reserves are required on all manually underwritten loans. If the borrower has 3 or 6 months reserves then those funds can be used towards any [compensating factor requirements](#) as needed.

Number of Units	Number of Months Reserves
1 - 2	Reserves must equal or exceed one (1) total monthly mortgage payment
3 - 4	Reserves must equal or exceed three (3) total monthly mortgage payments

Reserves are defined as:

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

**Residual Income**

Calculating Residual Income

- Calculate the total gross monthly income from all occupying borrowers.
  - Calculated only for the occupying borrowers
  - Do not include bonus, part-time or seasonal income that does not meet the requirements for effective income.
  - Do not include income from non-occupying co-borrowers, co-signers, non-borrowing spouses, or other parties not obligated on the mortgage.
  - Because taxes are taken into account in the calculation of residual income, non-taxable income may not be "grossed up."
- Deduct from gross monthly income the following items:
  - State, federal municipal or other income taxes
    - Use tax returns from the most recent tax year to document taxes, retirement, Social Security and Medicare.
    - If taxes returns are not available use current pay stubs.
  - Retirement or Social Security
  - Proposed total monthly fixed payment
  - Estimated maintenance and utilities
    - Multiply the living area of the property (square feet) by \$.014
  - Job related expenses (i.e., child care)

Residual incomes for loan amounts < \$80,000				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
\$75 for each additional family member up to 7				

Residual incomes for loan amounts ≥ \$80,000				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
\$80 for each additional family member up to 7				

Key to Geographic Regions on the Above Tables

<b>Residual Income (cont.)</b>	<b>Northeast</b>	Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
	<b>Midwest</b>	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota Wisconsin
	<b>South</b>	Alabama, Arkansas, Delaware, District of Columbia Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico South Carolina, Tennessee, Texas, Virginia West Virginia
	<b>West</b>	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming
<b>Source of Funds</b>	For loans with a FICO less than 660 the maximum DTI is the lesser of the limits listed in these guidelines or 45% when funds are from a source other than the borrower's on funds including but not limited to gifts, bonds, loans, grants or DPA's.	
<b>Supporting Documentation</b>	<ul style="list-style-type: none"> <li>• 2 months bank statements</li> <li>• Mortgage or Landlord rating</li> <li>• Additional documentation may be required at DE Underwriter discretion</li> <li>• Self-Employed Borrowers: Must obtain a business credit report for all Corporations and S-Corporations</li> <li>• Re-verification of employment within 10 days prior to Note date. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.</li> </ul> <p><b>Current Employment Documentation</b></p> <ul style="list-style-type: none"> <li>• Borrower(s) with same job for 2 years <ul style="list-style-type: none"> <li>○ Obtain the most recent pay stub covering a minimum of 30 consecutive days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) with year-to-date earnings, and one of the following to verify current employment: <ul style="list-style-type: none"> <li>▪ WVOE covering two years; or</li> <li>▪ Direct verification of employment by a third-party verification (TPV) vendor covering two years, subject to the following requirements: <ul style="list-style-type: none"> <li>• The borrower has authorized the lender to verify income and employment; and</li> <li>• The date of the data contained in the completed verification conforms with FHA requirements.</li> </ul> </li> </ul> </li> </ul> </li> <li>• Borrower(s) with job changes in past 2 years <ul style="list-style-type: none"> <li>○ Obtain one or a combination of the following for the most recent two years to verify the borrower's employment history: <ul style="list-style-type: none"> <li>▪ W-2(s)</li> <li>▪ VOE(s)</li> <li>▪ Direct verification by a TPV vendor, subject to the following conditions: <ul style="list-style-type: none"> <li>• The borrower has authorized the lender to verify income and employment; and</li> <li>• The date of the data contained in the completed verification conforms with FHA requirements.</li> </ul> </li> <li>▪ Evidence supporting enrollment in school or the military during the most recent two full years.</li> </ul> </li> </ul> </li> <li>• Self Employed <ul style="list-style-type: none"> <li>○ 2 years 1040's, business returns – all schedules <ul style="list-style-type: none"> <li>▪ Refer to <a href="#">Income Job Aid</a> for specific business type requirements (i.e., Schedule C, partnerships, corporations)</li> </ul> </li> </ul> </li> </ul> <p>As a reminder, if there has been a 20% or greater decline, the income is still deemed stable if:</p> <ul style="list-style-type: none"> <li>▪ The reduction was the result of documented extenuating circumstances,</li> <li>▪ The income has been stable or increasing for at least 12 months, and</li> <li>▪ The borrower qualifies using the reduced income.</li> </ul>	

**Manual Underwriting FAQ's**

<b>Question:</b>	<b>Answer:</b>
Can the required reserves be from gift funds?	No, FHA will no longer allow gift funds to be used towards reserves.
If the borrowers live with parents and are paying rent to them, what do we need for evidence?	12 months cancelled rent checks would be required unless the rent history can be verified through 3 <sup>rd</sup> party such as Management Company, apartment complex etc.
If the borrower is paying rent and the amount is not consistent how would we handle this?	We would have to verify what the rental amount is and all cancelled checks would have to be a minimum of that amount or more. With explanation as to why they vary.
What is considered significant additional income not reflected in the Gross effective income?	This would consist of overtime, bonus, commission, 2 <sup>nd</sup> job, seasonal employment that is not being used to qualify due to the fact that the required time frame of receipt cannot be verified.
Can Cash out be used as reserves?	No, cash out and funds refunded to the borrower at closing cannot be included in the calculations for reserves.
Are there any exceptions to the maximum debt ratio?	No, FHA has confirmed that there will be no exceptions to the maximum debt ratio. They will not even allow to go over by .01%
Do we have to provide a child care letter for the residual income calculation as we do on VA loans?	No, FHA is not requiring child care letters.
How many months of reserves are required?	<ul style="list-style-type: none"> <li>• 1-2 units requires minimum of 1 months reserves</li> <li>• 3-4 units requires minimum of 3 months reserves.</li> </ul> <p>Keep in mind that this is a requirement on all manually underwritten loans. If the borrower has 3 or 6 months reserves then those funds can be used towards any compensating factor requirements as needed.</p>