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FHA Training

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FHA Max Loan Amounts:

IMPORTANT

VISIT THE FHA WEBSITE FOR LOAN AMOUNTS BY COUNTIES ACROSS THE USA.
 (lower right front page of website [information for... / housing industry], click on lenders, on next page click on loan amounts)

WWW.HUD.GOV

<u>LOS ANGELES COUNTY</u>	
ONE – UNIT	\$729,750
TWO – UNIT	\$934,200
THREE – UNIT	\$1,129,250
FOUR - UNIT	\$1,403,450

<u>ORANGE COUNTY</u>	
ONE – UNIT	\$729,750
TWO – UNIT	\$934,200
THREE – UNIT	\$1,129,250
FOUR - UNIT	\$1,403,450

Note: These loan amounts may be exceeded by the amount of Up Front MIP being financed.

<u>RIVERSIDE & SAN BERNARDINO COUNTY</u>	
ONE – UNIT	\$500,00
TWO – UNIT	\$640,000
THREE – UNIT	\$773,700
FOUR - UNIT	\$961,750

<u>SAN DIEGO</u>	
ONE – UNIT	\$697,500
TWO – UNIT	\$892,950
THREE – UNIT	\$1,079,350
FOUR - UNIT	\$1,341,350

FHA JUMBO - MAX LTV AND FICO

	1 UNIT	2 UNITS	3 UNITS	4 UNITS	Restriction
All Loans	>\$362,790	>\$464,449	>\$561,411	>\$697,696	Min Fico 620
Purch & R/T	>\$417,000	>\$533,850	>\$645,300	>\$801,950	Max 94.99%LTV
Purch & R/T	<=\$417,000	<=\$533,850	<=\$645,300	<=\$801,950	Max 97.75% LTV
Cash Out Refi	>\$417,000	>\$533,850	>\$645,300	>\$801,950	Max 85% LTV

Upfront & Monthly-- Mortgage Insurance Premiums:

- FHA requires BOTH Upfront mortgage insurance AND Monthly mortgage insurance.
- **Upfront Mortgage Insurance Premium (UFMIP):** UFMIP must be paid upfront at closing. It can be either paid in cash or financed on top of the base loan amount by taking the base loan amount multiplied by the UPMIP factor of 1.5% (L.A. x 1.5% = UPMIP). UFMIP is usually financed.

* UFMIP must be paid regardless of loan to value.

NOTE: *If borrower chooses to finance the UFMIP, FHA allows for the maximum loan amounts that FHA issues by counties to be exceeded by the amount of the required UFMIP.*

- **Monthly Mortgage Insurance (MMI):** MMI must be paid each month in addition to paying the UFMIP. MMI is figured by taking the base loan amount multiplied by the MMI factor of 0.5% (L.A. x 0.5% = MMI).

* MMI must be paid regardless of loan to value—see cancellation of MMI

EXAMPLE:

UFMIP: Base Loan amount \$200,000.00 x 1.5% = \$3,000.00 (may be paid in cash or financed) IF Financed, new loan amount is \$203,000.00

MMI: Base Loan amount \$200,000.00 x 0.5% = \$1,000.00 divided by 12 months = 83.33 monthly.

**** FHA CANCELLATION of monthly mortgage insurance (MMI) ****

For those loans closed after Jan. 1, 2001

1. For loan terms (more than) > 15 years, annual premiums will be cancelled when the LTV reaches 78%, provided the borrower has paid the MMI for at least 5 years.
2. For loan terms (less than and equal to) ≤ 15 years, and with LTV of 90% and greater, the MMI will be cancelled when LTV ratio reaches 78%, irrespective of the length of time the borrower has paid the MMI.
3. **Mortgages with loan terms ≤ 15 years and with LTV of 89.99% and less, will not be charged a MMI.**

NOTE REGARDING ABOVE: FHA will determine when borrower has reached the 78% LTV ratio based on the lesser of the sales price or appraised value at origination. NEW APPRAISED VALUES WILL NOT BE CONSIDERED. The 78% can be reached by paying down/accelerated payments to the loan or by the "normal" amortized payments based on the original note.

Eligible Property:

- All SFR, and 2-4 units, and manufactured homes.
- Condo's acceptable if HOA is a HUD approved project,
- CONDO Project must be 51% Owner Occupancy

To find out if a condo project is approved go to: www.hud.gov

- Minimum square footage requirements: **600 square foot.**
- Zoning – Other than residential maybe acceptable use of the property & surrounding area will determine if acceptable or a rejection.
- Permits – Local Building code/ Health and Safety check with local HUD office.

Eligible FHA Borrower:

Who is eligible for an FHA loan?

Generally, to be eligible for an FHA loan, must have:

1. A valid social security number.
2. A lawful residency in the United States.
 - * Permanent resident aliens ok.
 - * Non-permanent resident aliens ok, IF a borrower has a valid SSN; and the borrower is eligible to work in the US as evidenced by an Employment Authorization Document (EAD) issue by BCIS. IF the authorization for Temporary residency status will expire within one year and a prior history of residency status renewals exists, lender may assume continuation will be granted. If no prior renewals, lender must determine the likelihood of renewals, based on information from the BCIS. SSN's cannot be used as documentation for work status.
3. Of legal age to sign on a mortgage in your state. (18 years old)

--No Lawful Residency / NON-U.S. Citizens with no lawful residency in the U.S. are not eligible for FHA-insured mortgages.

Ratios & Compensating Factors:

RATIOS: 31 / 43 (MAX)

Ratios may be exceeded with excellent compensating factors. Usually 3 compensating factors are needed. Each file case by case.

NON-OCCUPANT CO-BORROWER : Allowed only on SFR, must use housing debt and bills in ratio

Use CAUTION if exceeding ratios on:

- cash-out refi's
- challenged credit
- if borrowers own funds are not being invested into transaction
- high LTV

- weak employment
- major increase in housing
- using Down Payment Assist. Programs (DPA's)
- and especially if in combination with any of the above
- 2-4 Units

NOTE: If using Non-Occupant Co-Signer (must be a relative or must have an established long term relationship with the borrower), the ratios for the actual Occupant Borrower may be high, i.e. Parents purchasing for son or daughter (case by case and all cases will be considered).

COMPENSATING FACTORS

Examples of compensating factors that may be used to justify approval of mortgage loans with ratios exceeding FHA Guidelines are listed below:

- **EQUAL TO OR GREATER THAN HOUSING PAYMENTS**: The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12 to 24 months.
- **MINIMAL HOUSING EXPENSE INCREASE**: There is only a minimal increase in the borrower housing expense.
- **10% OR MORE DOWN PAYMENT**: The borrower makes a large down payment of 10% or more toward the purchase of the property.
- **ABILITY TO ACCUMULATE SAVINGS**: The borrower has demonstrated an ability to accumulate savings AND a conservative attitude toward the use of credit.
- **ABILITY TO DEVOTE GREATER PORTION OF INCOME TO HOUSING EXPENSE**: Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- **ADDITIONAL INCOME**: The borrower receives documented compensation or income not reflected in the effective income, but directly affects the ability to pay the mortgage, including food stamps and similar public benefits, or secondary income that underwriter is unable to use such as a second job less than 24 months etc.
- **3 MONTHS OR MORE, CASH RESERVE**: The borrower has substantial documented cash reserve (at least 3 months), after closing. In determining if an asset can be included as cash reserves or cash to close, the lender must judge whether or not the asset is liquid or readily convertible to cash and can be done so, absent retirement or job termination. NOTE: Funds being borrowed "against" a retirement account, gifts from any source, and cash out refinance funds, CANNOT BE USED FOR CASH RESERVES.
- **NON-TAXABLE INCOME**: The borrower has substantial non-taxable income such as social security income. NOTE: IF NO ADJUSTMENT WAS MADE PREVIOUSLY IN THE RATIO COMPUTATIONS i.e. already grossed the income up 15%.
- **POTENTIAL FOR INCREASED EARNINGS**: The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession. Must supply documentation.

- **SECONDARY WAGE-EARNER:** The home is being purchased as the result of relocation of the primary wage-earner. And the secondary wage-earner has an established history of employment, is expected to return to work and reasonable prospects exist for securing employment in a similar occupation in the new area. Must document the availability of such possible employment.

NOTE 1: Although looked at favorably by FHA, A history of good employment, paying mortgage or rent on time, and good credit history, these are NOT necessarily considered compensating factors.

NOTE 2: The above mentioned compensating factors are to assist with the underwriting of the loan. Because a particular file contains compensating factor(s) does not necessarily constitute loan approval or the ability of the underwriter to approve excessive ratios. Each file is case by case.

Appraisal:

- FHA requires appraiser to be FHA Approved. Approved appraisers may be found at www.hud.gov
- **Comps: Under 6 months old, ok. However, based on the declining market more recent comps may be required at underwriting. Case by case.**
- Appraisal cannot be older than 6 months.
- Once ordered and completed, FHA Appraisal & Case Number Assignment stays with subject property for 6 months.
- In order to request a case number (& appraisal) lender must have 1. Appraisers full name. 2. Appraisers license number. After loan application and at time of loan processing.
- FHA appraisals are now more “friendly.” Similar to conventional.
- Health & Safety issues must be called out on appraisal and repaired prior to close.
- Appraisal reviews not required. Underwriter will review appraisal & should request a review if major discrepancies noted on report.
- **TERMITE REPORT:** Need if part of purchase agreement, requested by appraiser, or if underwriter sees a need for one.

LTV's:

Refi **Cash-out:**

Owner occupied – 95% (1-2 Units) and 85% (3-4 Units) of appraised value – must be owned for more than 1 year. If less than 1 year – loan amount is based on lesser or original sale price or current appraised value.

* If borrower has a mortgage late in last 12 months reduce MAX LTV to 85%.

NOTE: Cannot add a co-signer on cash out for qualifying purposes, unless it can be documented that co-signer has lived in residence for the last 6 months. No non-owner-occupied co-signers allowed on CASH OUT.

Cash out for debt consolidation represents risk, each case carefully evaluated for its merits.

Cash Out – Can pay off delinquent accounts.

Refi No Cash Out: **Max 97.15%**

Refi Streamlines: Loan Limits and documentation guidelines vary – call or refer to
(No Credit Qualifying) 4155.1

Non related Co-Borrowers: 75% Max LTV, **unless related by blood, then regular max LTV's ok**, or documented evidence longstanding, substantial relationship. Lenient ratio requirements for the actual Owner-occupant borrower. Non-Occupant Co-borrower must have principal residence in USA & only allowed on SFR, not 2-4 units.

Identity of Interest: A transaction between family members, business partners etc, 85% max LTV, there are exceptions to the rule, such as, if the family member has been a tenant in the property for at least **six months** immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy (underwriter may require additional documentation).

3-4 Units: Must have 3 months PITI reserves, gift OK for down payment, buyers own seasoned funds verified for the reserves. New PITI must not exceed 90% of appraisers market rents for all units (note rate must be used).

Investment/Non-Occ: Streamlines refinances only.

Income:

Alimony / Child Support: Complete divorce papers, evidence payments have been made for the last 12 months. Must continue for the first 3 years of the mortgage. In general, Child Support and other **NON-TAXABLE INCOME** may be grossed up 15%. Depending on income tax bracket grossing up more than 15% may be acceptable. Alimony is taxable and therefore should not be grossed up.

Commission Income: Last 2 years 1040's (schld. C) must be used to average income, Commissions should be consistent for last 2 years and not be declining.

Employee Business Expenses:	Last 2 year 1040's must be averaged. Take Employee Business Expense directly from the IRS form 2106, Schd. B. Once this is averaged it must be deducted from their INCOME. Not their debt. This income is common for trucking industry (TRUCKERS), health care workers (NURSES), automobile industry (MECHANICS), and people in sales etc.
Family Owned Business:	Borrower employed by family owned business must provide evidence of no ownership. This may include borrowers 1040's or last year corporate returns from the family owned business.
Part Time, Over Time, Bonus Income:	All three may be used to qualify if a 2 year history has been established and income expects to continue. <u>VOE – should state it's likely to continue.</u> Watch for declining income.
Rental Income 1:	(Borrower currently has property rented/leased prior to last tax filing) Last 2 years 1040's & review schedule "E", may add back depreciation for the last 2 years and average over 24 months. May take into consideration any MAJOR improvements completed, i.e. new roof, or major repair items listed on schld. E.
Rental Income 2:	(Borrower will be renting their currently owned property prior to closing of the new property) May be used as income, or negative must be used as a liability. If property is located in Southern California, may use 90% of rental / lease income. If outside So. CA, verify percent allowed by local FHA/HUD HOC Center. www.hud.gov
Rental Income Subject (units):	90% of subject's appraisal rents. i.e. if buying 2-4 units, must use 90% of appraisers rental income given. Property must debt service itself 100% (PITI vs. 90% of rents for ALL units including unit being occupied.) If outside So. CA, verify percent allowed by local FHA/HUD HOC (home ownership center). www.hud.gov
Self Employed:	25% or greater ownership is considered self employed. Last 2 years 1040's. ALSO, YTD profit and loss, and balance sheet. P&L and balance sheet should support prior years and not be declining.
Paid Hourly:	One month of the most recent pay-stubs required. Pay-stubs and VOE's must both reflect the guaranteed amount of hours using to qualify, usually 40 hours. If conflicting information as to the amount of hours worked, for example, if one pay-stub shows 40 hours and another shows 26 hours, then may need to average borrower over 24 months.

Funds to Close:

Down Payment:	100% Gift OK – Gift may be derived from a close relative, or an Approved Non-Profit Organization (DPA's—such as www.HARTprogram.com , or Nehemiah www.getdownpayment.com) or any government grant/program, ok. Program guidelines from these sources change from time to time, please call.
Gift:	<u>Must be related to borrower:</u> Must document donor's ability and document transfer of gift from Donor to Borrower. IMPORTANT TO DO THIS PROPERLY. Verify proper name appears on any cashier checks (Gift). If name appears it must be the same name as DONOR.
IRA's/Bonds/Stocks:	Evidence of redemption is required on sale of personal property- Conclusive evidence items have been sold and satisfactory evidence of their worth. 60% of 100% vested IRAs.
Reserves:	<u>Not required on 1-2 units.</u> Only required on 3-4 units, 3 months PITI. Cannot be a gift, buyers own seasoned funds must be verified.
Seller Concessions:	May not exceed 6% of sale price. <u>This includes</u> using any of the Down Payment Assistant programs (DPA's). Seller CANNOT pay off buyers debts or collections.
Lender Paid Cost:	The lender may pay the borrowers closing cost and/or prepaid items as long as the above par pricing (rebate) covers these costs & docs not to exceed 6% of sale price.

Credit History:

Explanation Letters:	SPECIAL NOTE: Always include a detailed letter explaining ALL credit issues reflected on credit report. In some cases underwriter may ask for supporting documentation.
Bankruptcy:	Chp 7, 2 Years passed since <u>discharge</u> , re-established good credit or no new credit is OK. If Chp 13, the day after <u>discharge</u> OK. Should not have lates after a BK.

Co-Signed Debts:	Must count and qualify unless proof other party has made payments for last 12 months with <u>no lates in past 12 months</u> .
Co-Signed Mortgage:	12 Months cancelled checks showing the “other” borrower making payment <u>without lates</u> . Verify if subject borrower not living in property or if subject borrower was a non-occ co-signer.
Collections:	<u>Case by case</u> , medical collections if reasonably small, may leave unpaid. All other collections MUST be paid. Sellers & DPA's cannot pay off collections/debts or you must reduce sales price/loan amount accordingly. Gift from relative ok to use as funds to pay off debt / collections.
Account Review:	Most weight is given in the order of housing payments, then installment debts, then revolving debts.
Multiple FHA Mortgages:	Borrower may only have 1 FHA Owner-Occ at a time <u>unless</u> : <ul style="list-style-type: none"> • Relocation to another residence not within reasonable distance to current residence. • Increase in family size, documented and LTV must be 75% on current mortgage. • Vacating jointly owned prop – from divorce or other co-borrower married and buying new property. • Non-occ co-borrower: was not an occupant when purchased and now wants to purchase owner occupied.
Previous Mortgage Foreclosure:	If within last 3 years, generally not eligible, however there are case by case circumstances that allow exceptions. Death of principle wage earner and has re-established good credit. (Must be extreme – like lost home to hurricane Katrina).
Quitclaim Spouse:	Must have / run credit from non-purchasing spouse – Consider all monthly obligations, pay all collections, etc. Same applies on refinances. <u>MUST RUN SPOUSES CREDIT unless legally divorced.</u> If unable to locate spouse for authorization (out of state / country) then file is not eligible for FHA financing.
Recurring Obligations:	Less than 10 months need not be counted unless it could affect borrowers' ability to repay mortgage. Rule of thumb, watch if over \$100 per month. Generally, if over \$100 debt will be counted against borrower.
Consumer Credit counseling:	1 Year elapsed and no late payments, written permission from agency to enter into mortgage. No credit belonging to the borrower should be late during or after time in counseling. Lates treated similar to BK.
No Credit or Score:	Must provide 3 ALT trades rates for 12 mos, no lates See Rate sheet for price hit

FHA Allowable Closing Costs: *(Can be paid by seller or buyer)*

- 1% Origination Fee (1% of Loan Amount without MIP)
- Discount Points (calculated off of Total Loan Amount with MIP)
- Title Insurance and Endorsements – actual costs as customary for area
- Mortgage Insurance Premium (MIP)
- Escrow Fees – actual costs as customary for area
- Notary Fees - actual costs as customary for area
- Recording Fees - actual costs as customary for area
- Credit Report - actual costs as customary for area
- Appraisal Fees - actual costs as customary for area
- Termite Report and Clearance - actual costs as customary for area
- Repairs – required by the appraisal - actual costs as customary for area
- Brokers Fees – Processing - actual costs as customary for area and consistent with brokers normal costs.
- Lender's Fees - actual costs as customary for area
- FHA Inspections - actual costs as customary for area
- Home Inspection Fee - actual costs as customary for area
- Real Estate Commissions - actual costs as customary for area
- Demand / Recon / Beneficiary Fee - actual costs as customary for area
- Pro-Rated Interest

FHA Non-Allowable Closing Costs: (Buyer CANNOT Pay)

- Tax Service Fee
- Nor may the lender collect an “origination” fee greater than one percent. “Discounts” over 1% generally ok. FHA has strong opinions/views on excessive points and fees being charged to borrowers. Generally, discount points should not be charged if receiving a rebate, unless discount points are being used to buy the interest rate down.

HELPFUL WEBSITES

Please See Robert Vaughan for (rate sheets, lock forms, submission forms)
GOVFHA@AOL.com

FHA (HUD) General website (Everything you want to know about HUD including FHA)
<http://www.hud.gov/>

FHA General website (General information about FHA)
<http://www.fha.gov/index.cfm>

HART Program (Information about HART Down Payment Assistance—DPA's)
www.hartprogram.com

NEHEMIAH: (Information about NEHEMIAH Down Payment Assistance—DPA's)
www.getdownpayment.com

MISC. NOTES:

- **Always fill out “scenario form” or “submission form” in detail.** Scenario's require a scenario form filled out in order to better serve you.
- **Incomplete files = incomplete underwriting.** Please submit complete files. Recent 30 days worth of pay-stubs, W-2's last 2 years, and tax returns.
- **MCAW:** Mortgage Credit Analysis Worksheet. There is one for a purchase and one for refinances. Please be sure these are included and completed properly when submitting for a scenario and when submitting file for underwriting. These forms may be found in POINT and all other processing loan programs under FHA FORMS. The MCAW is accompanied by instructions within the processing programs. The MCAW takes place of the 1008 found on conventional loans.