FHA FAQs/HOT TOPICS
Presenters

CONNIE SCHOENWALD
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AGENDA

Occupancy
Income/Employment
Credit
Miscellaneous
Property
FHA Connection
Refinances
Real Estate Owned
Additional Information
Homeownership Centers

Santa Ana
Philadelphia
Denver
Atlanta

HOC Office Locations
Community Property States
CONTACT FHA

1-800-CALLFHA (800-225-5342)

Email: info@fhaoutreach.com

www.fhaoutreach.gov/fhafaq/

Jerrold.H.Mayer@hud.gov to sign up for HUD news and updates including upcoming trainings and webinars
OCCUPANCY

- When may a borrower be considered an owner occupant, obtain Owner Occupied FHA Insured Financing and not occupy subject property?

- May a Non Occupying CoBorrower on a Daughters FHA Insured loan purchase or refinance a Primary home with FHA Insured Financing?
Non occupying co-borrower

May a parent selling home to a child also co-borrow with the child on the FHA insured loan?

YES, HOWEVER, THE LTV IS LIMITED TO 75%
HANDBOOK 4155.1, 2.B.3.b
BELIEVE IT OR NOT

Borrowers own a current home with FHA Financing and intend to purchase a new primary home with FHA Insured Financing. Borrowers will retain their current home. Lender has determined borrowers meet the exception for 2 FHA Insured Financed Homes due to increase in Family size as the Borrowers state they need a larger home and yard due to a new family dog.

WHAT DO YOU THINK?
INCOME/EMPLOYMENT

4155.1 HANDBOOK
Believe it or not

The Borrower owns a Rental Home and has provided his parent’s tax return to evidence the rental income on the property. The income is not disclosed on the borrower's tax return.

Would you allow this income?


Community Property State; Non Purchasing Spouse shows a loss on Schedule C. The Lender **DID NOT** count the loss as a reduction to income nor as a debt.

What would you do?
TRUE OR FALSE:

Borrower is self employed. Last 2 years tax returns show a significant decline in income from one year to the next. Borrower qualifies with a 12 month average of the lesser, most recent tax return. Lender elects to use this income and qualify loan. May lender use this income to qualify?

See 4155.1, 4.D.4.g
INCOME

- Unrembursed Employee Business expenses from Schedule 2106 must be deducted from borrowers income.
- If borrower is receiving an automobile allowance, the difference between the automobile allowance and the 2106 Expense may be added to income if positive or must be treated as liability if negative.
- In addition, the borrowers auto loan payment must be counted as a debt and may not be offset by the Automobile Allowance.
DID YOU KNOW THAT THESE INCOME TYPES MAY BE GROSSED UP IF NON TAXABLE?

- SSI/DISABILITY
- MILITARY ALLOWANCES
- CHILD SUPPORT
Rental Income

Borrower is vacating his current home to purchase a new home within the same commuting distance to his employment. Borrower will retain and lease out current home and requests that the rental income be considered in qualification. Lender has provided borrowers HUD I to evidence original purchase price of vacating home to be $130,000. The existing loan on vacating property is $103,000.

Does rental income meet FHA guidelines?
Borrower has a job gap of 4.5 years due to husband in the military and moving from place to place during that time. Borrower has now returned to the work force and has been on the job for 1 month.

Would FHA allow the use of borrowers income in qualification? And what would the lender want to verify in order to use the income?
Credit

4155.1 Handbook
Section 4.C
True or False: All loans must receive approve/eligible AUS findings in order to be eligible for FHA Insurance.

True or False: Loan is eligible for FHA Insurance when the Occupant Borrower has acceptable credit and FICO score, but has no employment, income or assets. Non occupying Co-borrower has sufficient income and assets and the loan receives an AUS Approve/Eligible. See ML 08-11
Traditional Credit

True or False: AUS Approve/Eligible. Exspouse has been awarded a prior home and mortgage. Copy of divorce Decree has been provided evidencing such. Prior mortgage shows 2x30 days late in most recent 12 months. May the Lender omit Prior Mortgage Debt? See ML 04-47 and FHA Total Scorecard User Guide.

True or False: Borrower with a Property Mortgage Included and Discharged through a bankruptcy is eligible for FHA financing two years after the bankruptcy.
Traditional credit

- In order to omit contingent liability, the person making the payments must be co-obligated on the debt:
  
  A) Mother making borrower’s automobile loan payment, is a Co-borrower on the debt and has provided 12 months cancelled checks evidencing mother has made this payment. **This would be eligible for omission**

  B) Father making borrower’s student loan payment, is NOT a Co-borrower on the loan and has provided 12 months cancelled checks. **This would NOT be eligible for omission.**
Something else to keep in mind is a liability being paid by a borrower’s Schedule C Business. A Schedule C business is a Sole Proprietor business which means that the borrower is solely and individually responsible for all income, expenses and debt. The business itself would not be co-obligated on the debt and thus, this liability would not be considered a contingent liability. The liability must be counted in qualification of borrower.
**Traditional Credit**

- **True or False:** All FHA Insured Loans must be run through FHA Total Scorecard to be eligible for FHA Insurance.

- **True or False:** Borrowers who have entered into a Consumer Credit Counseling Program Must have completed the program a minimum of 2 years prior to loan application.
Traditional Credit

Omission of Debt

1) **Lender should not automatically omit debt.**

2) **Documentation to support omission of debt required.**

3) **FHA Total Scorecard may not analyze the omitted debt in the overall Underwriting Review.**

4) **Debts with less than 10 payments remaining should be included.**

5) **Allow Total Scorecard to omit the allowable debt.**
MANUAL DOWNGRADE

FHA Total ScoreCard User Guide may be found in Mortgagee Letter 04-47. The Guide references circumstances when a loan must be manually downgraded:

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MANUAL DOWNGRADE

1) Outstanding Delinquent Federal Debt
2) CAIVRS indicates a federal delinquency, default, claim or lien.
3) Suspended and Debarred Individuals
4) Previous Mortgage Foreclosure within most recent 3 years.
5) Previous Bankruptcy within most previous 2 years.
6) Late Mortgage payments in excess of 2X30 days late.
7) Disputed accounts, regardless of disposition of account.
8) Short sale or short payoff
MANUAL DOWNGRADE

In addition, when a lender is not able to document the casefile per the AUS/FHA Total Scorecard Findings, the loan must be downgraded to Refer and Manually Underwritten.
NON TRADITIONAL CREDIT

- **Borrowers with no credit (including no FICO Score) or insufficient credit may be approved using non traditional credit guidelines outlined in Handbook 4155.1, 1.7.A and 4.C.3.**

  Nontraditional Trades should be provided

- **Occupying Borrowers with insufficient credit must meet 31%/43% DTI Ratios and 2 months cash reserves**
NON PURCHASING SPOUSE

- **When would you require a credit report for a non purchasing spouse?**

- **Is a Credit report required for the non purchasing spouse when the non purchasing spouse does not have a SSN?**
NON PURCHASING SPOUSE

True or False:
All non purchasing spouse judgments and Federal delinquent debt must be paid in full prior to closing.
MISCELLANEOUS
IDENTITY OF INTEREST
4155.1 Handbook, Section 2.B.2

An Identity of Interest Transaction is defined as a Purchase Transaction between a buyer and seller with a family or business type relationship.
IDENTITY OF INTEREST

There are several **exceptions** that may be granted to allow maximum financing for Identity of Interest Transactions:

- **Family Member Purchase:** Involves transactions between Family Members defined as grandparent, parent, child, grandchild and/or spouse when Family Member is selling their primary residence. May also include properties being sold by an estate of the Family Member that can be documented as the primary residence of the deceased party within a reasonable amount of time. **Note that Family Member is defined very specifically in the Glossary of the 4155.1 Handbook (Chapter 9) and would not include cousins, friends, aunts, uncles, etc.**
IDENTITY OF INTEREST

Other Exceptions for maximum financing include:

- **Builders employee Purchase**

- **Tenant Purchase**: Occurs when buyer is leasing from family or business relation and has occupied property for a minimum of 6 months. Note that the tenant landlord relationship itself does not make the transaction an identity of interest transaction.

- **Corporate Transfer**
LENDER INSURANCE

For those lenders that insure/endorse their own loans the following references may be helpful:

- Lender Insurance Guide may be found on hud.gov (use search feature to locate appropriate web page). This guide explains the requirements Lenders must meet to insure/endorse own loans.

- Handbook 4155.2, Section 2.C

- Mortgagee Letter 05-36
THE ORIGINATION STAFF OF THE LENDER (i.e., LOAN ORIGINATOR, PROCESSOR, UNDERWRITER, ETC) MAY NOT INSURE/ENDORSE THE FHA CASE. THE SHIPPER, CLOSER, RECEPTIONIST, ETC. MAY INSURE/ENDORSE THE LENDERS CASES.

IF A LENDER MAKES A MISTAKE (LOAN AMOUNTS, ADDRESS, CLOSING DATE, ETC) WHEN INSURING/ENDORSING A CASE, THEY MUST SUBMIT FOR AN MIC (MORTGAGE INSURANCE CERTIFICATE) CORRECTION THROUGH THE APPROPRIATE HOMEOWNERSHIP CENTER. THIS PROCESS MAY TAKE UP TO 90 – 120 DAYS.
Funds for closing

The borrower, as a licensed real estate agent, wishes to use his commission from subject property sale for funds to close the purchase transaction. Underwriter conditions for evidence of amount of commission borrower will receive from subject purchase transaction and evidence that credit for this commission appears on page 1 of the HUD I.

Is this acceptable to FHA?
PROPERTY
NEW CONSTRUCTION
4155.1 Handbook, Section 2.B.5

TRUE OR FALSE: PROPERTIES LESS THAN ONE YEAR OLD MAY BE PROCESSED AS A RATE/TERM, NO CASH OUT REFINANCE, AS LONG AS BORROWER CURRENTLY OWNS LAND.

TRUE OR FALSE: BORROWERS MAY RECEIVE CASH BACK AT CLOSING WHEN PROCESSING A BUILD ON OWN LAND TRANSACTION.

TRUE OR FALSE: BORROWER MAY ACT AS HIS OWN GENERAL CONTRACTOR ON A BUILD ON OWN LAND TRANSACTION.
Mortgagee Letter 2009-16 contains the worksheet that should be used in determining maximum loan amount for all Build On Own Land Transactions. The maximum loan amount is determined by the lesser of the acquisition cost OR appraised value OR existing indebtedness (i.e., Construction Loan)
NEW CONSTRUCTION

DOCUMENTATION:

- **Builder Certification HUD Form 92541** must be dated and provided by builder prior to date of appraisal for all transactions when subject property is less than 1 year old. Appraiser is required to review Builder Certification prior to completion of appraisal.

- **If the appraisal is completed as proposed or under construction, the Final inspection (HUD Form 92051) must be completed by an FHA FEE INSPECTOR along with the 10 Year Warranty OR must Provide Building Permit and Certificate of Occupancy for all newly constructed properties less than 1 year old.**
NEW CONSTRUCTION

Does FHA allow an equivalent document of a Certificate of Occupancy (C.O.)? (i.e., when the local jurisdiction does not issue a Certificate of Occupancy)
SUBSEQUENT PURCHASE

1) Builder Defaults on a property less than 1 year old and bank forecloses.

1) Bank sells to subject borrower who applies for FHA Insured Loan.

2) New Construction Documents are not required for a subsequent purchase.

3) Lender must provide evidence property is complete via Appraisal, Certificate of Occupancy or Compliance Inspection 92051 provided by a Fee Inspector.

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NEW CONSTRUCTION DOCUMENTS

The new construction documentation requirements have been provided as an attachment to your invitation to this webinar.
Borrower Purchased Property 2/28/2009. Borrower has decided to refinance his loan 8/1/2009 and Requests the new Lender to utilize the appraisal that was performed for his purchase transaction & effective 2/20/2009. Refinance loan will close 8/15/2009. Lender agrees to use this appraisal as it is less than 6 months old.

Is this acceptable for FHA guides?
Repairs and improvements, as required by the appraiser as essential for property eligibility, and to be paid by borrower, may be added to the sales price before calculating the mortgage amount for all FHA transactions.
PROPERTY REPAIRS
(CONTINUED)

The amount that may be added to the sales price before calculating the maximum mortgage amount is the LESSER of:

1) The amount the value of the property exceeds the sales price OR
2) The Appraiser’s estimate of repairs and improvements OR
3) The amount of the Contractor’s bid
If the borrower has a home inspection performed, that inspection may also identify a need for repairs which were not identified on the appraisal. In such cases, it is important that the Underwriter address such issues and determine that property still meets FHA minimum property requirements.
The 203k loan is HUD’s rehab program

- Ability to market properties that need updating or repair
- Increasing a property’s value and improve appearance
- Increase the functionality and comfort of a borrower’s home
## 203(k) vs. 203(k) Streamline

<table>
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<th>203(k)</th>
<th>203(k) Streamline</th>
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<tr>
<td>Repairs/improvements must be at least $5000</td>
<td>Facilitate uncomplicated repairs/improvements</td>
</tr>
<tr>
<td>Consultant required</td>
<td>No consultant required</td>
</tr>
<tr>
<td>Architectural exhibits required</td>
<td>No architect required</td>
</tr>
<tr>
<td>Borrower can do repairs/improvements if qualified</td>
<td>Borrower can do repairs/improvements if qualified</td>
</tr>
<tr>
<td>ML 2000-25</td>
<td>ML 2005-50</td>
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<td>Include up to $35,000</td>
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</table>
Is there a minimum amount of bids a borrower needs to provide for the repairs? **NO**

Are the 203(k) programs allowed on investment homes? **NO**

Are the 203(k) programs limited to single family properties? **NO**

Does a lender have to have special approval to underwrite 203(k) loans? **NO**

Can a pool be installed with the 203(k) programs? **NO**
To access the 203k worksheet

Visit the link referenced below:

http://www.hud.gov/offices/adm/hudclips/index.cfm
To access information for the 203(k) and 203(ks) programs

Visit the link referenced below:

http://www.hud.gov/offices/hsfg/sfh/203k/20kmenu.cfm
Welcome

The FHA Connection provides FHA-approved lenders and business partners with direct, secure, online access to computer systems of the U.S. Department of Housing and Urban Development (HUD).

Warning! Misuse of Federal Information at this Website falls under the provisions of Title 18, United States Code, section 1030. This law specifies penalties for exceeding authorized access, alteration, damage or destruction of information residing on Federal Computers.

Getting Started

About This Site
Registering a New User
Hours of Operation
Contact Us

References

Frequently Asked Questions
Quick Start Guide
FHA Connection Guide
FHA Connection Resources

**HUDCLIPS**: The HUD Client Information and Policy System (HUDCLIPS) offers HUD clients free access to HUD’s official repository of policies, procedures, announcements, and other materials using full-text online searches.

**Lenders Information**: The Lenders page located on HUD’s Internet Web site provides access to information originated and maintained by HUD’s Office of Housing on how to become an FHA lender, what FHA lenders need to know, and a comprehensive index of FHA-related information.

**Mortgagee Letters**: The FHA Mortgagee Letters page on HUD’s Internet Web site enables you to view online and/or print all mortgagee letters issued since 1976.
<table>
<thead>
<tr>
<th>Single Family FHA Business Areas</th>
<th>Message Boards Updated as of:</th>
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<tr>
<td>Single Family Origination</td>
<td>Thursday, February 11, 2010</td>
</tr>
<tr>
<td>Single Family Servicing</td>
<td>Tuesday, February 23, 2010</td>
</tr>
<tr>
<td>Property Improvement/Manufactured Housing</td>
<td>Thursday, February 04, 2010</td>
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<tr>
<td>Lender Approval</td>
<td>Friday, December 12, 2008</td>
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<tr>
<td>Neighborhood Watch</td>
<td>Monday, April 14, 2008</td>
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<tr>
<td>Lender Assessment</td>
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<tr>
<td>Physical Assessment</td>
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<tr>
<td>Mortgagee Letters</td>
<td></td>
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</tbody>
</table>
Implementation Date for New Requirements in ML 2009-28

As indicated in the industry email of December 22, 2009, enactment of ML 2009-28 (Appraiser Independence) will be implemented February 15, 2010 and will take effect for all case numbers assigned on or after February 15, 2010.

Lenders will be able to secure a case number assignment in FHA Connection via the Case Number Assignment Screen without inputting the appraisal information. The Case Number Assignment Screen will no longer capture the assignment choice, license ID and assignment date. Instead, lenders will be required to enter all appraisal information when the case is really assigned.
Social security validation

- Changes to FHA connection October 2007

- Name, birth date and social security number must match Social security Administration

- If failing validation, lender must provide an acceptable 3rd party verification with a service provider with direct access to the social security administration
Case numbers

- A lender can hold a case number from transfer to another lender, if the borrower has not paid for the current appraisal? True or false

- My loan closed using FHA insured financing, but the loan was not insured. Can I re-use the case number on my new refinance?

- A case number can be cancelled if the previous lender is refusing to transfer the case number? True or false
**Case Number Cont**

### Case Number Assignment - Windows Internet Explorer

- **Case Type:** Regular DE
- **Processing Type:** Real Estate Owned w/Appraisal
- **Financing Type:** N/A
- **ADP Code:** 703
- **Living Units:** 01
- **Program ID:** (00) Default
- **Loan Term:** 360

### ADP Code Characteristics:
- **Amortization Type:** Fixed
- **Housing Program:** FHA Standard Mortgage Program (203b)
- **Condominium:** No
- **Special Program:** No Special Program
- **Buydown:** No

### Type of Case:
- **Forward Purchase**

#### As Required
- **All Refinances:**
  - (a) Select streamline refinance type: Not Streamlined
  - (b) Is this a Cash-out Refinance: No

- **Prior FHA and prior REO cases:** Enter case number of previous case:

### HOPE Loans:
- (a) Confirm that this case qualifies as HOPE Loan: No
- (b) Debt-to-Income (DTI) Ratio:
- (c) Number of payments made on old loan:
- (d) Date of first payment for old loan:

---

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Case numbers cont

ADP Codes

✓ 703-mutual Mortgage
✓ 729-adjustable rate mortgage
✓ 702-203(k)
✓ 951-Home Equity Conversion Mtg (fixed)
✓ 807-Energy Efficiency Mortgage
✓ 734-Condominiums

http://www.hud.gov/offices/hsg/sfh/f17c/f17adphist_xmlhlp.cfm
Appraisal Logging

- Appraisal logging should be completed upon lender’s receipt of appraisal.

- Need to complete prior sales price on foreclosures.

- The appraisal cannot have an effective date more than 10 days prior to the case assignment date.
Case warnings

What do the following case warnings mean?

- Mortgage credit reject
- Mortgage credit sanction/CAIVRS
- Multiple loans
- Free form comments exist
I have a final AUS approved recommendation, but when we’ve tried to insure the loan, it gives me an error “case warning total case rescored as refer, manual underwriting required”. What does this mean?

I am getting an error on the maximum mortgage for a streamline refinance with an appraisal. It is calculating the mortgage amount on the unpaid principal balance plus closing costs. Where do I enter the interest and prepaid expenses?
Insurance Application

- I have an error that I owe more on the UFMIP than what was submitted. What do I need to do?

- The loan amount was miscalculated and is over insured. What do I need to do?

- I have an error that the UFMIP was remitted prior to the loan closing. What do I need to do?
Refinances
4155.1-Chapter 3
and Chapter 6
HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

Chapter 3. Maximum Mortgage Amounts on Refinance Transactions

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Rate/term refinance

- Can you include past due real estate taxes in existing debt calculation for the maximum mortgage amount?
- Borrower has a line of credit on their home and it’s the only existing debt. Does the $1000 advance in the last 12 months apply?
- If there is a divorce, can a property be refinanced with an FHA insured mortgage and used to buy out the ex-spouse’s equity in the home?
- Do judgments on title qualify as seasoned liens to be paid with a rate/term refinance?
Rate/Term Refinance

- **Can a borrower pay down/modify a current 2\textsuperscript{nd} subordinate mortgage?**

- **The maximum mortgage can be calculated so the borrower receives $500 at closing?**

- **Can you add a Non-Occupying Co-Borrower to a rate/term refinance?**
Cash out refinance

Why does FHA not allow for a non-occupying co-borrower on a cash out transaction? If a borrower had a non-occupying co-borrower or co-signer on their purchase transaction, can they remain on the new cash out refinance?

Can a borrower have a 1x30 late in the last 12 months on an 85% cash out refinance?
A borrower has owned a property for 3 years and has been renting it out for the last 2 ½ years. The borrower has since recently moved back into the property 7 months ago.

Can the borrower do a cash out refinance on this property?
STREAMLINE REFINANCES

- Am I required to verify assets if my borrower needs funds to close on their streamline refinance?

- Is there a seasoning requirement when a borrower can refinance?

- How do I calculate the net tangible benefit when the borrower’s taxes are increasing?
Real estate owned
Can a borrower have a non-occupying co-borrower or co-signer on a $100 down loan or a good neighbor next door loan?

How do you calculate the maximum mortgage for a $100 down loan?

What properties are eligible for a $100 down program?

Is there a maximum dollar amount that a reo property is insurable with a repair escrow?

Do I always need to use the appraisal completed by the M&M contractor?
Additional Information
# Most Common Mortgagee Letters

<table>
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New Updates

09-28: Mortgage Brokers and Commission-based lender staff may no longer order FHA appraisals effective with case assignments 2/15/10.

09-29: Lenders must transfer appraisals with case numbers when requested by borrower and assure that all appraisal information is accurately input into the Appraisal Logging Screen in FHA Connection.

09-30: Validity period for appraisals has been changed to 120 days for all case assignments effective January 1, 2010
09-51: Adoption of 1004D/442 Appraisal Update and Completion Report to extend appraisal validity period and serve as final inspection for existing properties. Effective with case assignment 2/15/10.


10-08: Validity period for appraisals on HUD REO properties has been changed to 120 days for all case assignments effective April 1, 2010. REO Second appraisals to support a higher purchase price.

10-13: Additional guidance to 1004D/442 Appraisal Update and Completion Report
New Updates

Flipping Waiver from February 1, 2010 to February 1, 2011:

Waiver of Requirements of 24CFR 203.37a(b)(2) Pursuant to 42 USC at 3535(q)) and 24 CFR 5.110

FLIPPING WAIVER

- **Effective 2/1/2010 to 2/1/2011**

- **Seller holds title for less than 90 days acceptable.**

- **Lender must document seller’s acquisition price**

- **Subject sales price exceeding seller’s Acquisition Price by 20% or more requires lenders justification of increase in value and property inspection.**
NEW UPDATES

10-02: UFMIP will increase to 2.25% effective with case assignments on or after April 5, 2010
hud.gov offers a search feature so that lenders may access:

- all Handbooks
- Mortgagee Letters
- HOC Reference Guides
- All approval lists such Acceptable Ten Year Warranty Plans for New Construction, Termite States, Non Profit Organizations, etc.
- Upcoming Trainings, Webinars
HUD.GOV
U.S. Department of Housing and Urban Development
Secretary Shaun Donovan

HOME

Mortgagee Letters

Previous years:

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