



TMS FHA Guidelines

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1. Product Information

PRODUCT DESCRIPTION

FHA-insured mortgages for both standard and High Balance Loans subject to area limitations. Terms available: 30 year fixed, 15 year fixed and standard 5/1 and 3/1 ARMs.

INTEREST ONLY

Not allowed.

PROGRAM CODES

WS-30FHAFX	FHA 30 year Fixed	WS-FHA-3/1	FHA 3/1 ARM
WS-15FHAFX	FHA 15 year Fixed	WS-FHA-5/1	FHA 5/1 ARM
WS-FHA-SL30	FHA Streamline 30 year Fixed	WS-FHA-HB5/1	FHA High Balance 5/1 ARM
WS-FHA-HB30	FHA High Balance 30 year Fixed		

ARM TERMS

Index

Weekly average yield on US Treasury securities adjusted to a constant maturity of 1 year as published by the Federal Reserve Board.

Initial/Annual Adjustment Cap

The initial interest rate is fixed for the fixed period of the ARM (3 or 5 years, respectively). Thereafter, the interest rate adjustments are subject to a 1% interest rate cap at each adjustment period, which will not cause deferred interest.

Life Cap

5% above the initial interest rate.

Margin

2.25% (refer to rate sheet). The margin is the floor.

Payment Cap

N/A

Payment Adjustment Date

The initial ARM change date is determined by TMS at the time the docs are drawn. The payment change date will be the first of the month following the interest rate adjustment, and every 12 months thereafter. The interest rate must always be rounded to the nearest 1/8th of 1% (0.125%).

Conversion Option and Fee

Not convertible.

DOCUMENTATION TYPES

- Full Doc
- Streamline Refinance

MINIMUM LOAN SIZE

\$50,000.00.

ASSUMPTIONS

May be permitted to qualified borrowers, depending on servicer.

PREPAYMENT PENALTY

None. However, borrowers are required to pay interest through the end of the month during which the loan is paid off.

IMPOUND/ESCROW ACCOUNTS

Required on all loans.

MAXIMUM LOAN AMOUNT AND CREDIT SCORE

The maximum loan amount is limited to the local Statutory Mortgage Loan Limits as published by HUD Field Offices. The most current loan limits can be found at [FHA Mortgage Limits](#). Enter the state and county location of the subject property to determine the **Maximum** allowable loan amount. Available on Fixed Rate and 1-2 Unit properties.

The maximum loan limits allowed by HUD reflect the maximum base loan amount (before adding UFMIP).

Pricing adjustments and FHA High Balance Product Codes apply to base loan amounts exceeding the standard Program Loan Limits.

Credit and credit score requirements, maximum loan amount and eligibility apply to any final note amount (loan amount including UFMIP), regardless of the number of units.

FHA 2011 Loan Amount Limits (not to exceed statutory limits)				
1 Unit	2 Units	3 Units	4 Units	Credit Score
Standard Program Loan Limits				
\$417,000	\$533,850	\$645,300	\$801,950	640
High Balance Loan Limits Purchase and Rate/term Refinance				
\$729,750 until 9/30/11 \$625,500 after 9/30/11	\$934,200 until 9/30/11 \$800,775 after 9/30/11	N/A	N/A	660
High Balance Loan Limits Cash-out Refinance				
\$729,750 until 9/30/11 \$625,500 after 9/30/11	\$934,200 until 9/30/11 \$800,775 after 9/30/11	N/A	N/A	660

LTV REQUIREMENTS

Transaction type	Max LTV (excluding UFMIP)	Max CLTV (excluding UFMIP)
Purchase	96.5%	96.5% May exceed 96.5% where down payment assistance is being provided by a government agency or non-profit instrumentality of government.
Streamline Refinance w/o appraisal	No max	100%
Streamline Refinance with appraisal	97.75%	100%
No cash out Refinance	97.75%	97.75%
Cash out Refinance	85%	85%

MORTGAGE INSURANCE PREMIUMS- UFMIP AND ANNUAL

FHA Mortgage Insurance is required on all loans. Effective with FHA Case Assignment dates on and after October 4, 2010, the UFMIP will be 1% for all FHA Loans.

Loan Term	LTV*	Annual/Monthly MIP - FHA Case # Assignment date	
		Case #s through 4/17/11	Case #s on/after 04/18/2011
≤ 15 Years	≥78.01 to ≤ 90%	none	.25
	> 90%	.25	.50
> 15 Years	≤ 95%	.85	1.10
	> 95%	.90	1.15

*As a reminder, MIP requirements are based on the LTV calculated using the base loan amount

For insurance premium purposes and eligibility for FHA mortgage insurance, the loan-to-value ratio, computed to two decimals (e.g., 95.65) is calculated by dividing the mortgage amount prior to adding on any upfront mortgage insurance premium by the sales price or appraised value, whichever is less.

For refinance transactions, which often include closing costs in the loan amount, the LTV is determined by dividing the loan amount prior to adding on any upfront mortgage insurance premium by the appraiser's estimate of value.

The annual MIP is determined by multiplying the base loan amount by the appropriate Annual Premium factor. Divide the resulting number by 12 to obtain the monthly premium. This figure is included in the proposed monthly housing expense and qualifying ratios.

- For mortgage >15 years, the annual MIP will be canceled when the LTV reaches 78%, provided the borrower has paid the annual MIP for at least 5 years.
- For mortgages ≤ 15 years, the annual MIP will be canceled when the LTV reaches 78%.

The LTV on streamline refinances will be based on data regarding the mortgage being refinanced, including sales price and appraised value amounts resided in FHA's Single Family Insurance System (SFIS). FHA will compute a new LTV by dividing the new loan amount, exclusive of any upfront MIP, by the lower of the sales price or appraised value amount. From this computed LTV, FHA will determine the 78% threshold is reached based on the scheduled amortization. If the computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default 89.9 percent.

SUBORDINATE FINANCING

Transactions may have no more than one subordinate lien.

If there is an existing subordinate lien that has a variable loan balance, such as a HELOC, the maximum credit line must be subordinated at closing. Use the full HELOC line to calculate the CLTV. For closed-end second liens, the current unpaid principal can be used to calculate the CLTV.

Exception approval is required on loans with secondary financing in the following circumstances:

- All Streamline Refinances: Max CLTV is 125%

Subordinate Financing - Purchase Transactions

Family members may lend 100% of the borrower's required cash to close (on a secured or unsecured basis):

- May include down payment, closing costs, prepaid expenses, and discount points
- Cash back to borrower is not allowed
- Maximum CLTV is the lesser of 100% of the property value, or the sum of the sale price plus closing costs, prepaid, and discount points
- The maximum insurable mortgage is not affected by loans from family members
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms
- The family member providing the secondary financing may not borrow the funds from a source with an interest in the sale of the property including, the seller, builder, loan officer or real estate agent
- Document the source and transfer of funds from lending family member to borrower
- Transactions involving a loan from a family member cannot also be a sale from one family member to another.

Definition of family member: child, parent, grandchild, grandparent, spouse, legally adopted sons or daughters, a child who is placed with the borrower by an authorized agency for legal adoption, and foster children. A child is defined as a son, stepson, daughter, or stepdaughter.

A family-type relationship must be documented (i.e. a same-sex partner could be documented by a joint health insurance policy).

Federal, state and local governmental agencies, including non-profit agencies considered instrumentalities of government may provide secondary financing for the borrower's entire cash investment with the following conditions:

- The first mortgage combined with the second mortgage, as well as any other mortgages, grants, etc. may not result in cash back to the borrower
- The sum of all financing may not exceed 100% of the cost to acquire the property, including down payment, closing costs, discount points, and any normal prepaid expenses

- The monthly payment under the first and second mortgage or lien, plus other housing expenses and recurring charges, cannot exceed the borrower's reasonable ability to pay
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms
- The individual HOC with jurisdiction maintains a list of approved non-profit entities. Loan file submissions are to include evidence of the non-profit approval.

Institutional lenders, private individuals, and non-profits that are not HOC-approved may provide secondary financing under the following conditions:

- The combined amounts of the first and second mortgages do not exceed the applicable loan-to-value factor
- The repayment terms of the second mortgage must not provide for a balloon payment before 10 years (or other such term acceptable to FHA), unless the property is sold or refinanced, and must permit prepayment by the borrower, without penalty, after giving the lender 30 days advance notice
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms
- The required monthly payment under the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to pay. Any periodic payments due on the second mortgage are due monthly and are substantially the same in amount
- Borrower must make a cash investment of at least 3.5% down payment.

Down Payment Assistance programs from Non-Profits are not allowed.

Subordinate Financing - Refinances

- Cash out transactions: maximum 85% CLTV
- Rate/Term refinances: No new subordinate liens, but if an existing second lien will not be paid off, it must be subordinated, and may be modified without limitation as to LTV/CLTV. Payments are included in the ratios. New subordinate financing includes any secondary financing originated concurrently or within 6 months prior to the closing date of the subject FHA refinance, and not part of the original purchase transaction. All current subordinated liens must be paid off in full or subordinated in full per LTV/CLTV
- Streamlines: See streamline section
- If HELOC is being subordinated, use original HELOC maximum line amount for CLTV and actual payment, unless a modification agreement is recorded with the subordination agreement
- Buydown funds may not revert to the party that established the escrow. If the property is sold "subject to", or if there is an assumption of the loan prior to the completion of the buydown, the remaining funds held in escrow must continue to be paid out on behalf of the new owner.

TOTAL SCORECARD

- Must be used for all transactions except non-credit qualifying streamlines
- Must not be used on non-credit qualifying streamline transactions -- can only be used on bona fide credit qualifying streamlines when required on death or divorce situations
- If inadvertently ran thru TOTAL scorecard for a streamline refinance, then ZFHA must be entered as the underwriter in the FHA connection. Must use the Direct Endorsement (DE) underwriter designation

- Must be used and processed as Rate/Term transactions (not as credit-qualifying streamlines) when deleting borrowers, other than due to death or divorce.

2. Eligibility

PROPERTY ELIGIBILITY

Eligible

- SFR
- 2 Unit Properties
- 3-4 Unit properties (see additional guidelines)
- PUDs: PUD approval not required
- Modular Homes
- Log Homes: Requires review by credit management
- FHA Approved Condominiums

Ineligible

- Condotels
- Manufactured Homes
- Leaseholds
- Co-ops
- Condominium Projects not listed as approved in FHA Connection
- Deed/Resale Restricted properties. Restrictions include those that limit the use of all or part of the land on one or any number of owner characteristics or other requirements, income limits, occupancy, homebuyer status, employment (employer provided subsidy), or resale price.

FLOOD INSURANCE REQUIREMENTS

Life-of-loan flood zone determination services are required for all properties. In addition, properties located in Coastal Barrier Resource System (CBRS) areas are not eligible for FHA-insured mortgages.

3 – 4 UNIT PROPERTIES

- The maximum mortgage amount for 3-4 unit properties is limited, so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100%. This ratio is known as the self-sufficiency test. Monthly mortgage payment is defined as PITI (principal, interest, taxes, monthly MIP, homeowners insurance, flood insurance if applicable). Net Rental income for 3-4 properties is calculated by subtracting HOC vacancy cost factors (if more, use appraiser's estimated vacancy factor) from gross rent of subject property. To determine gross rent, use lesser of Schedule E of 1040 tax returns (2yr average), executed leases or appraiser's estimate of fair market rent for vacant units and unit occupied by borrower. Net rental income is used as the denominator in the self-sufficiency test. Refinances on 3-4 unit properties with self-sufficiency ratios above 100% are not eligible.
- 3 months of PITI reserves required. Reserves cannot be derived from transaction proceeds or a gift.
- Borrower has signed the Respect to Hotel and Transient Use of Property agreement.

CONDOMINIUM REQUIREMENTS

Detached (Site) Condominiums

- Project review is not required.
- Appraisal to be completed on 1073 Condominium form.
- Transaction to be designated using 203(b) as the correct Section of the Act.
- Condominium Rider is required.
- There must be no shared buildings and no portion of a structure touching another (examples: if the project had shared garages or an archway between homes, the project is not eligible).

Attached Projects

All projects must be FHA approved and meet FHA's condominium guidelines. The website for FHA approved condominium projects is [HUD Approved Condo Look Up](#)

The following do not need condominium project approval:

- Streamline refinances
- FHA-insured loans to finance the purchase of HUD REO properties

The following is required for loans with FHA Project Approval:

- FHA condo questionnaire for approved projects
- FHA Project Query from FHA Connection showing project approval details, and all documents required to meet any project approval conditions
- Evidence of Project insurance policies, as applicable: Hazard, Flood, Liability
- Underwriter to complete FHA Lender Certification on Individual Unit Financing.

FHA spot approvals are no longer available.

FHA has set up a special on-line mailbox for all condominium inquiries:

CondoProjectApprovalInquiries@hud.gov

FHA Condominium Insurance Requirements

The condominium project must be covered by hazard, flood, liability and other insurance required by state or local condominium laws or acceptable to FHA as defined below:

Hazard Insurance

The homeowners association (HOA) is required to maintain adequate "master or blanket" property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage. If the HOA does not maintain 100% coverage, the unit owner may not obtain "gap" coverage to meet this requirement.

HO-6 Coverage

In cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a "walls-in" coverage policy (HO-6 policy).

Liability Insurance

The HOA is required to maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owner's association, and public ways of the condominium project.

Fidelity Bond/Fidelity Insurance

Fidelity Bond/Fidelity Insurance is required for new and established condominium projects with 20 or more units. The HOA must maintain this insurance for all officers, directors and employees of the association and all other persons handling or responsible for funds administered by the association. The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds.

Flood Insurance

Insurance coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of \$250,000 per unit, whichever is less. In the insuring of a residential condominium building in a regular program community, the maximum limit of building coverage is \$250,000 times the number of units in the building (not to exceed the building's replacement cost). The HOA, not the borrower or individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA). The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project. If the FHA Roster Appraiser reports that buildings in a condominium project are located in a SFHA, the lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance on buildings located within the SFHA, per [Mortgagee Letter 2009-37](#).

GEOGRAPHIC RESTRICTIONS

Eligible in all areas of: CA, CO, CT, DC, DE, FL, GA, IL, MA, MD, ME, MI, MS, NC, NH, NJ, NY, PA, RI, SC, TN, TX, VA and VT

Borrower Eligibility

MAXIMUM NUMBER OF BORROWERS

- Maximum of 4 borrowers are accepted on any loan transaction.

OCCUPANCY

- Owner Occupied: allowed on all products and documentation types. For owner occupied transactions, when an existing owner occupied loan is less than one year old, and borrowers will be retaining that property, exception approval is required
- Second Homes and investment properties not allowed

OCCUPANCY OF FORMER INVESTMENT PROPERTY/SECOND HOME

The table below describes the maximum mortgage amount available for mortgagors who re-occupy their investment property or second home securing the mortgage which is being refinanced.

Occupancy of Former Investment Property/Second Home	Eligible Financing
12 months or more prior to the loan application date of the refinancing mortgage	Maximum financing at the same level as an owner-occupant
Less than 12 months prior to the loan application date of the refinancing mortgage	Rate-and-term refinancing only (no streamline allowed), with an LTV not to exceed 85%

CITIZENSHIP

Borrower Type	Requirements
All borrowers, including U.S. Citizens	Borrowers must have a social security number which must be on all applicable income, asset, or credit documentation contained in the loan file.
Permanent Resident Aliens	FHA will insure mortgages made to lawful permanent resident aliens under the same terms and conditions as U.S. Citizens. The lender must document the mortgage file with evidence of Permanent Residency and indicate on the application that the borrower is a lawful Permanent Resident Alien.
Non-Permanent Resident Aliens	Non-Permanent Resident Aliens Acceptable FHA will insure mortgages made to non-permanent resident aliens under the same terms and conditions as U.S. Citizens. Borrower must be eligible to work in the U.S. The loan file must contain an Employment Authorization Document (EAD) issued by the Bureau of Citizenship and Immigration Services (BCIS). Follow FHA guidelines if the residency status expires within one year. 4155.1 4.A.3.d Note: Individuals with any of these visa types are ineligible borrowers: A-1, A-2, A-3, F-1, F-2, M-1. Non-U.S. citizens that do not have lawful residency in the U.S. are not eligible for FHA.

NON-OCCUPYING CO-BORROWERS

Non-Occupant Co-borrowers are permitted with the following limitations:

Maximum financing is permitted for borrowers related by blood, or for unrelated individuals that can document evidence of a family-type, long standing and substantial relationship not arising out of the loan transaction.

- Properties are limited to one-unit single family homes
- For loans where the non-occupant co-borrower is not related by blood, or evidence of a family-type long standing relationship, the maximum LTV will be limited to 75%
- Accepted on purchase or rate/term transactions where the subject property will be the only property owned
- Non-Occupant Co-Borrowers are not allowed on cash-out refinance transactions.

All borrowers, regardless of occupancy status, must sign the security instrument and mortgage note.

FINANCED PROPERTIES

Borrower may not own more than one FHA-insured property unless:

- Borrower is relocating to another area not within reasonable commuting distance of present home OR

- Borrower had to vacate a residence that will remain occupied by a co-mortgagee due to new marriage or divorce OR
- Borrower is a non-occupying co-borrower for a family member on another FHA mortgage OR
- An increase in family size, which has resulted in the present house being ill-equipped to meet the family's needs
 - The borrower must provide satisfactory evidence of the increase in dependents and how the property no longer meets the family's needs.
 - Borrower must also pay down the outstanding mortgage balance on the present property to 75%. A current appraisal must be used to determine loan-to-value compliance.

ASSIGNMENT OF PURCHASE CONTRACT

An assignment of buyer's interest on a purchase contract is not allowed.

TITLE VESTING

All owners must take title as individuals.

Transaction Requirements

PURCHASES

Seller/Interested Party Contributions

Interested parties include, but are not limited to, the builder, developer, seller and the real estate agent. Contributions from interested parties are acceptable with the following limitations:

- Maximum contribution is 6% of the property's sales price towards the buyer's actual closing costs, prepaid expenses, discount points and other financing concession
- Included in the 6% limitation are buydown funds and payment of the UFMIP (UFMIP must be paid in full – interested parties cannot pay a portion of the UFMIP).

Property Ownership Requirements (Anti-Flipping Rule)

- Only owners of record can sell properties that will be financed using FHA mortgages. Underwriters must verify seller is owner of record. Examples of acceptable documentation are: property sales history report, a copy of the recorded deed from the seller, property tax bill, or title commitment binder
- The transaction may not involve any sale or assignment of the sales contract
- An owner of record must have title to the property for 91 days or more before it can be resold to a buyer who wants FHA financing
- If the most recent sale of the property occurred at least one year previously per the appraiser, no additional documentation is required. Underwriters are still responsible to verify the owner of record as detailed above
- If the appraiser indicates property sold within past 12 months, a HUD-1 or other documentation must be obtained from the seller to document sales price
- If the re-sale is between 91-180 days following acquisition by the seller, a second appraisal must be obtained from a different appraisal company if the resale price is 100% or more over the price paid by the seller when the property was acquired. The second appraisal may not be charged to the borrower

- The seller's date of acquisition is the date of settlement on the seller's purchase of the property. The resale date is the date of execution of the sales contract by the FHA buyer
- This rule does not apply when a builder is selling a newly built home or is building a home for a homebuyer wishing to use FHA-insured financing
- This rule does not apply when title is held by a government entity or a financial institution due to a REO foreclosure. All other types of foreclosure sales HUD considers as a prior sale and the necessary time period calculation falls under the anti-property flipping rules.

In addition to the above FHA criteria, the following TMS Funding rules also apply:

The following restrictions apply to all transactions except properties being sold by the foreclosing institutional lender:

Seller's ownership must be recorded on title.

Date comparison will be from seller's acquisition date to the earliest of the purchase contract, application/origination date, or case assignment date (FHA and VA Loans).

If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (i.e. settlement statement and proof of funds being paid).

Owned ≤ 90 Days

- Maximum 10% increase without documented improvements
- Maximum increase of 20% or \$100,000 whichever is less, with documented Improvements.
- Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are not allowed
- Must be arms-length transaction.

Regardless of who the property seller is, if the resale occurs within 0 to 90 days, all transactions must be arm's length. No identity of interest between buyer, property seller or third parties is allowed.

Specific ways to ensure an arms-length transaction include:

- Seller holds title to property
- LLC's, corporations or trusts serving as property sellers must meet all applicable state and federal law
- No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months)
- The property was marketed openly and fairly (any sales contracts with "assignment of contract of sale" is not allowed).

Owned 91 Days to One Year

Any price increase greater than 20% must be based on documented, detailed improvements made to the property. Appraisers should provide itemized details and project costs, and pictures of the significant improvements made.

FHA requires a 2nd appraisal if the resale price is ≥100% over the property seller's acquisitions price. The second appraisal must be paid for by the lender.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

Non Arms-Length Transactions

FHA refers to NAL transactions as Identity-of-Interest transactions. On principal residences, these are restricted to a maximum loan-to-value of 85%. Identity-of-Interest is defined as a transaction between family members, business partners or other business affiliates. Exception by Credit Management is required for all NAL transactions.

Maximum financing above 85% LTV is permissible under the following circumstances:

- A family member (parent, grandparent, child or grandchild) purchasing another family member's principal residence
- An employee of a builder purchasing one of the builder's new homes or models as a principal residence
- A current tenant purchasing the property that he or she has rented for at least 6 months pre-dating the sales contract. FHA and lenders require proof of occupancy
- Sales by corporations that transfer employees out of an area, purchase the transferred employee's home and then resell to another employee
- If a property being sold from one family member to another is the seller's investment property, the maximum mortgage is the lesser of either:
 - 85% of the lesser of the sales price or appraised value OR
 - 96.5% of the sales price, plus or minus required adjustments.

The 85% limit may be waived if the family member has been a tenant in the property for at least six months pre-dating the sales contract. FHA guides state: A lease or other written evidence to verify occupancy is required.

If borrowers are employed by the submitting mortgage broker or the property seller, credit management exception approval is required. Unless allowed by the exception approval, the following restrictions apply:

- Borrowers must be classified and documented as a self-employed borrower. The DU submission must reflect "Self-employed"
- Self Employed Income Analysis Form (Fannie Mae Form 1084) must be completed on every transaction and included in the loan file.
- Borrower must be employed by the current employer (mortgage broker or property seller) for at least the length of time DU requires as the "self-employment" period.
- Calculate the income from the tax returns as required by DU, or a current pay stub, whichever is lower.

Chain of Title

24 month chain of title required, indicating buyers, sellers, price and date. Any increases in value/price must be justified. The appraisal is not an acceptable source for chain of title information.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

REFINANCES

Seasoning*

During the first year of ownership (purchase date to application date), use:

- The lesser of current value or acquisition price if a rate/term refinance where the loan being paid off is NOT an FHA insured mortgage

- The lesser of current value or price paid at purchase if a cash-out transaction, except use current value if the property was inherited in the past year
- The current appraised value for FHA to FHA rate/term refinance transactions.

Properties Recently Listed for Sale

Refinances on properties currently listed for sale are not permitted. If the listing was cancelled prior to the date of loan application and appraisal the following applies:

- Rate/Term transactions are allowed without further restrictions
- On Cash-out transactions, 6 months seasoning required from cancellation of the listing to application date.

Continuity of Obligation

Loans with acceptable continuity of obligation may be underwritten and priced as rate-and-term or cash-out refinances according to the standard definitions. An acceptable continuity of obligation exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, or
- The borrower has recently inherited or was legally awarded the property (i.e. divorce or separation).

Borrowers who have been on title for the past 12 months, but are not listed on the note being refinanced, are eligible for rate/term transactions only. Proof that the borrower has made timely payments for most recent 12 month period as evidenced by canceled checks, or bank statements, AND a current 12 months mortgage rating with no late payments is required.

Cash back limitations on R/T and Streamline refinances

If the amount back at closing exceeds \$500, loan documents must be redrawn. Principal curtailments are not allowed.

OCCUPANCY OF FORMER INVESTMENT PROPERTY

Refer to LTV guidelines under Occupancy topic.

NO CASH-OUT REFINANCE

Loan amount is limited to:

- Payoff of the first mortgage
- Payoff of subordinate liens that are more than one year old
- Payoff of related closing costs, discount points and prepaids
- Subtract any applicable UFMIP refund
- Max cash back at closing - \$500

The maximum base loan amount is limited to 97.75% LTV.

Note: The maximum base loan amount cannot exceed the statutory limit for the area.

Payoff of an ex-spouse's or other co-mortgagor's equity is permitted and not considered cash out as long as the divorce decree, settlement agreement, or other bona fide equity agreement documents the equity awarded and must be paid to that party directly by the closing agent

FHA will permit the interest charged since the first of the month to be included in the payoff.

If the property was acquired less than one year before the loan application and is not already FHA-insured, the original sales price of the property (rather than the appraised value) must be used in determining the maximum mortgage. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price when calculating the mortgage amount.

Equity Line of Credit

- If any portion of the funds of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in a no cash-out refinance
- Existing subordinate liens may remain subordinate as long as they meet FHA guidelines on subordinate financing. No new subordinate lien may be opened

CASH-OUT REFINANCE

Under the terms and conditions described below, FHA will insure a cash-out refinance of 85% of the appraiser's estimate of value. The eligibility conditions that must be met include:

- Subordinate financing may remain subordinate to the FHA-insured first mortgage, subject to a maximum 85% CLTV, and provided the borrower is qualified with a payment on all liens
- Any co-borrower or co-signer being added to the note must be an occupant of the property. Non-occupant co-borrowers or owners are not allowed; those who were non-occupying co-borrowers when the property was purchased must be removed from the transaction.*
- Cash out for debt consolidation represents considerable risk and must be carefully evaluated
- Borrower mortgage history for subject property must be 0x30 for the past 12 months prior to application (if owned less than 12 months, for all payments made). If owned less than 12 months, use the lower of acquisition cost or current value
- Borrowers must have occupied the property as their primary residence for the past 12 months prior to application (if owned less than 12 months, for the entire ownership period). If property is an owner-occupied principal residence and owned for less than one year preceding loan application, value is based on the lesser of the property's appraised value or the original sales price.
- Minimum 6 month satisfactory payment history is required for all FHA cash out refinance transactions, with the exception of inherited properties and properties owned free and clear.
 - Inherited properties are eligible immediately, provided the property is owner occupied and has never been used as a rental property*
- If the property is encumbered by a mortgage, the borrower must have made all mortgage payments on time within the month due for the previous 12 months.
 - If there is less than a 12-month payment history, there must be a minimum six-month history, and all payments must be paid on time.
- Satisfactory mortgage payment history applies to all mortgages on the subject property.

STREAMLINE REFINANCE

The following applies to loans with FHA case assignment dates beginning April 16, 2011.

Transactions determined to be Higher Priced Mortgage Loans are not eligible as Streamline refinances.

At the time of loan application:

- the borrower must have made at least 6 payments on the FHA-insured mortgage being refinanced and
- at least six full months must have passed since the first payment due date of the refinance mortgage and
- at least 210 days must have passed from the closing date of the mortgage being refinanced.

Streamline Refinance without a New Appraisal

For Owner-Occupied Primary Residence

The maximum base mortgage cannot exceed the sum of the following:

- Unpaid principal balance
- Current month's interest payment if not already made
- The mortgage must be current for the month due. **A maximum of 60 days of interest may be added to the principal balance.**
- Minus the MIP refund on the existing loan.
- The term of the new mortgage is the lesser of 30 years or the unexpired term of the current mortgage plus 12 years.
- The LTV on streamline refinances without an appraisal will be based on data regarding the mortgage being refinanced, including sales price and appraised value amounts residing in FHA's Single Family Insurance System (SFIS). FHA will compute a new LTV by dividing the new loan amount, exclusive of any upfront MIP, by the lower of the sales price or appraised value amount. If the computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default to 89.9%, as will be indicated on the FHA Connection Netting Authorization
- Not to exceed the maximum published statutory limit for the area.

Streamline Refinance with a New Appraisal

- Must be **credit qualifying ONLY**. Non-credit qualifying with appraisal is not allowed
- Must be an owner occupied primary residence only.
- A new appraisal is required. A re-certification of value is not acceptable.

The maximum base loan amount will be limited to the lesser of the appraised value times 97.75%, or the sum of the following:

- Unpaid principal balance
- Current month's interest payment if not already paid
- The mortgage must be current for the month due. **A maximum of 60 days of interest may be added to the principal balance.**
- Minus the MIP refund
- Prepaid expenses and per diem interest
- FHA allowable closing costs
- Not to exceed the maximum published statutory limit for the area
- The mortgage being refinanced must be current
- Borrower must have made at least 6 scheduled payments on the mortgage being refinanced prior to the date of application
- Mortgage payment history requirements:
 - Borrowers must be OX30 in the past 12 months, including the months from the trade line reporting date through the month of payoff. For mortgages with less than 12

months payment history, review the borrowers previous mortgage history if reported on the credit report (for borrowers who were first time home buyers, it is not required to obtain a rental reference to complete the 12 month history).

- Final HUD-1 cash to the borrower cannot exceed \$500. Principal curtailments are not allowed
- Discount points may be charged, but must be paid from borrower's verified assets.
- "Reduction in Term" streamlines are not eligible, and must be processed as R/T transactions. This is based on the original term (not the remaining term) of the existing loan
- No termite inspection is required
- Re-warranting of Condo projects (based on current information) is not required
- No CAIVRs number is required.

Application and Documentation for Streamline Refinance

- A full and complete URLA (1003) is required (abbreviated forms are not allowed)
- The initial 1003 and 92900A must be signed by the interviewer and borrower(s), prior to underwriting and included in the underwriting submission to TMS Funding
- No face-to-face interview is required
- Two year employment history, including current employment and income sources are to be completed, with income amount displayed but ratios will not be calculated. Income and employment are not required on non-credit qualifying streamlines
- Borrower's employment and income sources must be confirmed as of the date of application (and which will be confirmed at closing via the verbal VOE)
- When the income source is from wages or self-employment, TMS Funding will obtain a verbal confirmation of employment or self-employment
- For all other sources, documentation showing the source and amount is required. The sources and required documentation are as follows:
 - Rental properties -- most recent tax returns or lease agreements
 - Dividend and interest -- most recent tax returns or current statement showing interest/dividends earned
 - Notes receivable -- copy of note receivable
 - Fixed income sources -- awards letter or one payment receipt
 - Child support or alimony -- divorce decree/court order
 - Retirement account income -- most recent bank statement showing earnings
 - Other sources -- case by case.
- For wage earners and self-employed borrowers, TMS Funding will obtain a verbal VOE of current employment and self-employment within 5 business days prior to closing. The information verified must match the 1003, and the borrower must have started employment on or before the initial application date. Upon completion of the verbal VOE, the underwriter will also sign and date the FHA Streamline Refinance Certification of Employment at the time of underwriting
- For all other income sources, underwriters will complete the FHA Streamline Refinance Certification of Employment at the time of underwriting
- 4506-Ts signed by borrowers must be included in the loan submission; it will not be validated before closing unless the underwriter has reason to question the employment. Borrowers will sign another 4506-T at closing
- Assets needed for closing must be verified with one month bank statements
- Monthly mortgage payment listed on the credit report may be used to document the current obligation. If the payment is not listed, or if borrower states it is inaccurate, document the current housing obligation with a copy of the most recent monthly billing, next payment

coupon, and -- if applicable -- notice of a pending rate and payment change on an ARM loan. In addition, document any monthly HOA dues as applicable by providing the billing from the HOA

- Second Mortgages must be subordinated; CLTV cannot exceed 97.75% based on the original appraisal if a streamline without an appraisal, based on the new appraisal if a credit-qualifying streamline with appraisal
- If the loan being refinanced has undistributed buydown funds, the undistributed buydown funds must be subtracted from the principal balance
- All individuals currently obligated on the existing loan must be borrowers on the new streamline
- Borrowers may NOT be deleted on a credit qualifying streamline, except for death or divorce. All other deletions of borrowers must be processed as regular rate/term refinances
- Death or divorce: If remaining borrower has made ≤ 6 payments since the death or divorce to application date, credit qualifying is required. If more than 6 payments, credit qualifying is not required
- If the FHA Case Assignment includes the message: "Warning: Refinanced Indemnification Case", the loan is not eligible as a Streamline refinance.

Tangible Net Benefit

The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal.

Net tangible benefit is defined as:

- Reduction in the mortgage payment (principal, interest, and MIP)
- Refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage

Reduction in Mortgage payment: FHA requires a 5 percent reduction to the P & I and MIP of the current mortgage payment

- This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b), from a 235 to 203(b), fixed to hybrid ARM, and any other scenario not listed below.
- Net Tangible Benefit of ARM refinance: Hybrid ARM (during fixed period) to Fixed Rate Refinance: Reduction of at least 5% of P&I and MIP is required.
- If a borrower has received a notice of an interest rate change, that scheduled payment change may be used for calculating the payment difference. This does not apply to changes in tax and insurance escrow amounts.

Underwriter Requirements

Underwriters will confirm case assignment date. For loans with FHA cases assigned on and after November 17, 2009, will review for all FHA and TMS Funding requirements, with special emphasis on:

- Payoff calculation
- Calculation of the new loan amount
- Completed 1003 and 92900A with borrower and originator signatures.
- Employment and income confirmed, income to match 1003
- Completing the lender employment certification
- Assets verified, and consistent with 1003 – the underwriter will condition for maximum amount borrower may bring to closing being the maximum that was verified
- FHA's requirements for Net Tangible Benefit having been met

- Completed FHA Streamline worksheet to be included in the loan file to show loan calculations and payment changes.

NEW CONSTRUCTION

Option A: New Construction (one year old or less), where the local jurisdiction issues building permits and performs local inspections/issues Occupancy Certificates. All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%).

- An issuance of a building permit (or equivalent*) by a local jurisdiction prior to construction -- this permit is acceptable evidence of “pre-approval”
- An issuance of a Certificate of Occupancy (or equivalent*) – this certificate is evidence of the local inspections. FHA will no longer approve local jurisdictions to perform these inspections since the Certificate of Occupancy will be accepted as verification of these inspections
- A Final Inspection by a designated FHA Fee Inspector -- this is needed in order for the underwriter to certify the property is 100% complete AND the property meets HUD’s minimum property standards, which is a requirement of the 92900-A
- 1 year Builder Warranty
- Form HUD 92541 (Builders Certification of Plans, Specifications & Site)
- All applicable construction documents from the builder
- Neither an Early Start Letter nor a HUD approved 10-year warranty plan is required
- Form HUD 92900-A, page 3, “Direct Endorsement Approval for a HUD/FHA Insured Mortgage” has been revised to include a check box for the lender to certify that the property is 100% complete and that the property meets HUD’s Minimum Property Standards. This must be done whether the loan is using the “Alternative to Inspections” option or not.

*A letter from the local jurisdiction explaining their “equivalent” to a building permit or occupancy certificate must be retained in the file along with a copy of the “equivalent”.

Option B: New Construction (one year old or less), where the local jurisdiction does not issue a building permit and a Certificate of Occupancy. All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%):

- An Early Start Letter or proof of enrollment in a warranty plan acceptable to HUD
- For proposed construction, the Initial Framing and Final inspections by the fee inspector is required, unless a 10 Year Warranty is obtained. If the 10-year warranty is obtained, only a final inspection by the FHA Compliance Inspector is required
- 1-year Builder Warranty
- Form HUD 92541 (Builder’s Certification of Plans, Specifications & Site)
- All applicable construction documents from the builder.

Construction Inspections as listed below:

Type of Construction	Proposed Construction		Under Construction		Existing, Less than One year	
	Option A	Option B	Option A	Option B	Option A	Option B
Required Documents						
Initial Inspection		X				
Framing Inspection		X				

Final Inspection by FHA Compliance Inspector (Form 920151)	X	X		X	X or URAR showing 100% Complete	X or URAR showing 100% Complete
Final Inspection by Local Building Inspector		FHA or X	X			
Building Permit	X		X		X	
Occupancy Certificate	X		X		X	
1-Yr Warranty (Form HUD-92544)	X	X	X	X	X	X
10-Yr Warranty		X* *requires FHA final		X		X

- If a 10-Yr Warranty is obtained, the Initial and Framing Inspections are not required.

10-Yr Warranty

- Evidence of acceptance from an acceptable 10-year plan is required (application for a 10-year warranty is not acceptable)
- Not required on low LTV loans (90% or less)

Final Inspections

As indicated above, all must be completed by an FHA Compliance inspector, not the appraiser.

NEW CONSTRUCTION DOCUMENTATION REQUIREMENTS

The following construction documents need to be collected:

- Builder's Certification of Plans, Specification, & Site (Form HUD-92541)
- Builder's Warranty (Form HUD-92544), not required on low LTV if under construction or less than one year old
- 10-Yr Warranty (when required per above). Not required on low LTV
- Plot Plan
- Plans and Specifications required by the local authority for building permit approval. If the local authority does NOT approve plans and specifications to obtain a building permit, the following additional exhibits must also be collected:
 - Foundation or basement plans
 - Floor plans and exterior elevations
 - Description of Materials (Form HUD-92005)
 - Design and local authority approval of individual water supply and/or sewage disposal system
 - Pest Control: In areas susceptible to termite damage: NPCA 99a Subterranean Termite Treatment Builder Certification and Guaranty, AND if soil treatment was used, NPCA 99b

New Construction Subterranean Termite Record (this requirement includes condominiums). To confirm: this is required on all new construction designations, including Existing-Less than One year Old properties

- Individual Sewer and Water: If applicable and required by appraisal, evidence of approval from local health authority.

All other documents normally submitted, such as inspection reports, soil poisoning certifications, appraisal reports, etc., are to be collected as usual.

ALL TRANSACTIONS

FHA Seven Unit Limitation

Prohibits any borrower from obtaining FHA-insured financing for a property that may be rented if the borrower has or will have a financial interest in more than seven rental units (regardless of financing type) in a contiguous area, generally defined as within a two-block radius.

TMS Exposure Limitations

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower. TMS Funding will finance up to 4 loans per borrower, with a total aggregate of \$2,000,000, whichever is less. A borrower may only have one FHA Loan.

3. Documentation

UNDERWRITING DECISION

The use of FHA TOTAL Scorecard is required on all loans except non-credit qualifying streamline refinances. The documentation requirements in the findings supersede standard FHA documentation requirements unless the loan parameters fall within the manual downgrade scenarios in this section.

Document the loan according to FHA and FHA TOTAL Scorecard requirements. In addition, the following apply:

- See Minimum Trade Lines and Credit Inquiries (Section 3)
- A 4506-T must be executed before closing with findings acceptably validated. An additional 4506-T must also be signed at closing
- Transactions determine to be Higher Priced Mortgage Loans are not eligible for any document relief. Files must have traditional income documentation covering two years, all assets verified and a full appraisal.

Regardless of the risk assessment made by FHA TOTAL Scorecard the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity, and documentation requirements.

MANUAL DOWNGRADE OF AUS “APPROVE/ELIGIBLE”

Downgrade the AUS “Approve/Eligible” in the following circumstances:

- Delinquent federal debt, CAIVRS and suspended and debarred individuals
- Foreclosure or Deed-in-lieu of foreclosure is dated within three years prior to the date of the application
- Bankruptcy within two years of application

- Significant material derogatory items (collection accounts, tax liens, charge-offs, judgments, etc.) were not part of the credit report used by DU
- Disputed tradelines are listed on the credit report but not resolved. A downgrade is not required for disputed accounts that adhere to the following parameters:
 - The disputed account has a zero balance
 - The disputed account is marked as “paid in full” or “resolved”
- The disputed account must be less than \$500 and more than 24-months old based on the date of the dispute.
- Chapter 7 & Ch 13 Bankruptcy discharge is dated within two years prior to the date of the application
- Mortgage late payments -- see section 3-Credit: Mortgage Lates
- Any credit obligations during the most recent 12 months show
 - Three or more late payments greater than 30 days
 - One or more late payments of 60 days, plus one or more 30 day late payments
 - One payment greater than 90 dates late
- Bank statements that indicate multiple Non-Sufficient Funds (NSFs)
- Credit Policy concurrence of overall unacceptable risk factors.

“REFER” AUS FINDINGS AND MANUAL DOWNGRADES

Loans with a Refer finding, or are manually downgraded by the underwriter are not eligible. TMS Funding does not allow manual underwriting.

AGE OF DOCUMENTATION

All documents must be dated within 120 days.

Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. TMS Funding will not accept an updated credit report solely because the credit score has improved.

4. Credit

CHAPTER 7 OR CHAPTER 13 BANKRUPTCY

Minimum time from discharge to application date is 2 years. Mortgages included and discharged through a bankruptcy are considered a foreclosure, and must meet the foreclosure timeframes.

COLLECTIONS AND CHARGE-OFF PAYMENT REQUIREMENTS

Collections and Charge-Offs must be paid off, with source of funds verified. Borrowers must provide written explanation for collections and charge-offs.

Disputed items may remain unpaid if it has not reached a judgment or lien status and the borrower has documented evidence of the dispute.

CREDIT AND CREDIT SCORES

All borrowers must have a minimum representative credit score as listed in the loan amount matrix. A tri-merged credit report is required on all borrowers on all FHA loans, including streamlines. Non-traditional credit is not allowed.

Decision Credit Score Determination

Credit report must indicate all 3 repositories were accessed. The decision credit score is determined for each borrower using the following method:

- When three scores are reported (one from each bureau), the middle score is used
- When two scores are reported the lesser of the two is chosen
- When only one score (or no score) is reported, the loan is ineligible.

Loan Representative Score

If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' representative scores.

MINIMUM TRADELINES

Each borrower must have sufficient credit depth such that:

- **Scores:** at least two repositories report a credit score, and
- **Open:** at least one tradeline is currently open, and
- **Recent History:** at least one tradeline reports a 12 month history, for which the most recent reporting date is not more than one year old.

One tradeline that is both currently open and reporting a 12 month history can be used to meet both the open and 12 month recent history requirements.

Eligible tradelines are standard reporting creditors, and do not include authorized user accounts, judgments, collections, charge-offs, non-traditional creditors, or student loans that were in deferment status during the required time frame.

Exceptions for borrowers not meeting the open and recent history requirements (but who meet all other credit and credit score requirements, and have at least two scores) will be considered with a documented recent 12 month prompt rental payment and a housing payment shock not exceeding 50% (i.e. payment increasing from \$1,000. to \$1,500).*

MORTGAGE PAYMENTS -- REPORTING HISTORY AND LATE PAYMENTS

Borrowers who are currently, or at the time of closing, delinquent or in arrears on their existing mortgage are not eligible. For all refinance transactions, mortgage payment history must be updated through the month of payoff. Example: credit report is dated in June, but last mortgage reporting month is April. Loan closes in August. File must document that May, June and July payments were all made within the month they were due.

SHORT SALES OR PRE-FORECLOSURES, SHORT PAY-OFFS OR RE-STRUCTURED DEBT

For borrowers who sold or refinanced (or are selling or refinancing) a property for less than the amount owed on the mortgage as agreed to by the lender, investor, and mortgage insurer, a three-year seasoning for re-establishing credit following the sale or refinance of the property is required. No exceptions are permitted.

FORECLOSURE

Minimum time from foreclosure completion is three years prior to application date or three years from the date the claim was paid if a prior FHA foreclosure. Foreclosure rules apply to any property owned or occupied by the borrower except for renting from a landlord.*

FHA DELINQUENCIES OR DEFAULT

Borrowers are ineligible if they are delinquent on, or have had a claim paid on an FHA-insured loan with the last three years. The three year waiting period begins when FHA pays the initial claim to the lender. This includes deed-in-lieu, short sales and foreclosures. This does not apply if:

- the property was sold to an individual who assumed the mortgage and subsequently defaulted
- the borrower was not responsible for payment under a divorce decree or separation agreement
- the property was included in a bankruptcy caused by circumstances beyond the borrower's control

FHA CASH-OUT REFINANCE >\$417,000 WITH BANKRUPTCY OR FORECLOSURE

Time elapsed since the completion of a Bankruptcy or Foreclosure on FHA refinances exceeding \$417,000 and providing cash back is 7 years to the date of application.

CONSUMER CREDIT COUNSELING

Participation in a consumer credit counseling payment program does not disqualify a borrower from obtaining an FHA-insured mortgage provided the underwriter documents that one year of the pay-out period has elapsed under the plan and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive written permission from the counseling agency to enter into the mortgage transaction.

TOTAL SCORECARD ACCEPT RECOMMENDATION

The borrower's decision to participate in consumer credit counseling does not trigger a requirement for additional documentation since the credit scores already reflect the degradation in credit history.

CREDIT INQUIRIES

If the credit report indicates that a creditor has made an inquiry within the previous 90 days, a letter from the creditor or signed statement from the borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower.

DISPUTED TRADELINES

If the disputed tradeline is determined to be insignificant, no further action is required, other than to reflect the decision as a manual underwrite and a notation of the dispute being considered insignificant.

If the disputed tradeline is determined to be significant, and

- The tradeline **does not** belong to the borrower, or the reported payment history is **inaccurate**, written documentation is required to evidence the erroneous information. When the information is validated, no further action is required
- The tradeline **does** belong to the borrower and the reported payment history is **accurate**, the disputed tradeline(s) must be considered in the credit risk assessment.

DELINQUENT FEDERAL DEBT

Borrowers are ineligible if they are presently delinquent on any Federal debt or have a lien placed against their property for a debt owed to the U.S government. Borrowers may become eligible once they bring the account current or enter into a satisfactory repayment plan with the Federal agency.

JUDGMENTS

Must be repaid in full and borrower must provide written explanation.

PAY-OFF DEMAND STATEMENTS

Current pay-off demand statements are required on all refinances, and must show that the loan:

- Is not 30 days delinquent
- Does not contain charges associated with default/forbearance
- Does not indicate a curtailment of principal/interest (e.g. short pay)
- Meets the program requirements for mortgage delinquencies

5. Employment/Income

Stable monthly income is the borrower's verified gross monthly income from all verifiable sources, which can reasonably be expected to continue.

VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

TMS will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding a loan.

SALARIED BORROWERS

- Evidence of a two-year history of employment is required.
- Documentation required:
 - Written VOE with most recent Paystub OR
 - Paystubs for the most recent 30 day period showing year-to-date- income (same employer); and
 - W-2 forms for the past 2 years: and*
 - Verbal VOE
- W-2s are not required if all the following conditions are met:
 - The current employer confirms a two-year employment history
 - Only base pay is used to qualify (no overtime or bonuses)
 - The borrower signs the 4506-T for the previous 2 years
 - TOTAL Scorecard does not require them.

BORROWERS RE-ENTERING THE WORKFORCE

Borrowers who are re-entering the workforce and have an employment and income history that covers less than the two most recent years, must be with their current employer for a minimum of six months and must have a documented two-year work history prior to the previous absence from employment.

Note: An acceptable employment situation includes an individual who took several years off from employment to raise children, then returned to the workforce.

Important: Employment situations not meeting the criteria listed above may only be considered as compensating factors. Extended absence is defined as six months.

OTHER INCOME

Includes bonuses, overtime, commissions, additional part-time employment or unemployment

- Sources of other income may be used to qualify the borrower, provided it has been received for the past two years and there are reasonable prospects of its continuance. A 12- to 24-month history may be considered if there are compensating factors that reasonably offset the shorter income history.
- Commission Income
 - 24-month average is required
 - Two years Federal Tax Returns: Schedule A of the borrower's tax returns must be reviewed to document unreimbursed business expenses. A 24-month average of the expenses must be deducted from income.
- Bonus and Overtime
 - 24-month average is required
 - If received less than two years, may be considered on a case-by-case basis. The earnings trend over that period of time of receipt must be established and analyzed; adequate documentation must be provided; the employer must state the bonus or overtime is likely to continue; and the reasoning for using this income must be justified.
- Part-time Income- Defined as jobs taken in addition to the normal regular employment to supplement the borrower's income. If a borrower's regular employment is simply less than a typical 40 hour work week, the stability of that income should be evaluated as any other regular on-going primary employment (i.e. a registered nurse that has been working 24 hours per week for the last year. This is the borrower primary job, even though less than 40 hours, and it should be included as effective income).

NON-TAXABLE INCOME

Non-taxable income can be "grossed up" based on the borrower's current tax rate based on last year's tax return. Use either 15% or 25%, depending on the borrower's tax rate. If the borrower is not required to file a federal tax return, the tax rate to use is 25%.

SELF-EMPLOYED BORROWERS

A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.

- Must have been established for a minimum of 2 years. A 12- to 24-month history will be considered, provided the borrower has at least 2 years previous successful employment (or a combination of 1 year employment and 1 year formal education or training) in that occupation, or a related occupation
- Must have a signed 4506-T
- Copies of the past two years' signed individual federal income tax returns.
- Copies of the past two years' signed business income tax returns if the business is a corporation or an "S" corporation or partnership.

Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines.

ALIMONY, CHILD SUPPORT AND SEPARATE MAINTENANCE PAYMENTS

If an applicant chooses to disclose the aforementioned items, proof evidencing the continuance of such payments for the next three (3) years is required.

- The borrower must provide a copy of the divorce decree, legal separation agreement or voluntary payment agreement, and
- Evidence that payments have been received during the last 12 months. Acceptable evidence included cancelled checks, deposit slips, tax returns, court records, etc.
- Periods of less than 12 months may be acceptable provided the payer's ability and willingness to make timely payments is adequately documented
- Child support income may be grossed up.

NON-EMPLOYMENT INCOME

This category includes many sources of passive income such as social security, pension income, interest income, etc.

- The underwriter must be confident this income will continue for the next 3 years
- Documents provided can be any of the following as applicable: award letter, pension statement, IRS 1099, the most recent signed pages 1 and 2 of individual income tax returns, or other documents
- For all tax-exempt income, the income must be grossed up once its continuance for three years has been established.

SECTION 8 INCOME

If borrower is to receive subsidies under the housing choice voucher homeownership option program from a Public Housing Agency

- Assume that the subsidy will continue for at least 3 years making the subsidy eligible to be considered as effective income for qualifying purposes
- Monthly subsidy may be treated as income in determining the homebuyer's qualifying ratios
- This subsidy is non-taxable, therefore may also be grossed up by 25%.

4506-T

All borrowers must sign a 4506-T at application and closing. IRS tax transcripts will be ordered and include in the loan file if income information was used in the underwriting decision.*

RENTAL INCOME

Subject 2-4 Unit Primary Residence

The rent received from the additional units not occupied by the borrower may be used for qualifying purposes. The rent (after subtracting the local FHA office's estimate for vacancies and maintenance, or 25% if the local FHA has not established a separate allowance) may be added to the borrower's gross

income in calculating the qualifying ratios. It may not be used to offset the monthly mortgage payment. This is only if property was acquired after last tax return filing or a purchase transaction.

Investment Properties and 2-4 Units Primary Residences Other Than the Subject Property

Signed leases may be used to calculate gross rents only if the property was acquired since the last income tax filing and is not shown on the Schedule E. However, no more than 75% of the gross rental income can be used.

- For properties listed on the Schedule E from the borrower's 1040's, depreciation may be added back to the net income or loss shown. Confirm the borrower still owns each property listed on the Schedule E
- If six or more units are owned by the borrower in the same general area, a map disclosing the locations must be submitted evidencing compliance with HUD's seven unit limitation.

CONVERSION OF PRINCIPAL RESIDENCE

Converting Primary Residences into Investment Properties (Principal Residence Being Vacated in Favor of Another Principal Residence)

Exceptions

Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center [FHA HOC Reference Guide for Cost Factors](#) may be considered in the underwriting analysis under the following circumstances:

- Relocations: The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. Borrower must have 2 months reserves covering both properties. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner
- Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae®1004/Freddie Mac®70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. Borrower must have 2 months reserves covering both properties.

The above guidance applies solely to a primary residence being vacated in favor of another primary residence and is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (schedule E of form IRS 1040). If the property being vacated had a mortgage insured by FHA, eligibility for a second FHA insured mortgage can only occur under the exemptions described in handbook HUD-4155.1 REV-5, paragraph 1-2. Refer to HUD's [Mortgage Letter 2008-25](#) for details.

ALL OTHER CASES

- Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction, and
- Borrower must have 2 months reserves covering both properties.

6. Assets

BORROWER INVESTMENT

The minimum cash investment is 3.5% down payment, in addition to closing costs.

VERIFICATION OF DEPOSIT (VOD) – ASSET DOCUMENTATION

- All loans except non credit-qualifying streamlines: Written VOD with the most current account information from the bank statement or two months bank statements covering the most recent period.
- Non credit-qualifying streamlines: One month bank statement.
- The borrower may pay for their credit report and appraisal fee on a credit card. The source of the fees must be documented by copy of personal or credit card account check, credit card slip, bank or credit card statement, or written on the Good Faith Estimate. The new credit card payment must be counted into the ratios for qualifying the borrower.

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented.

BANK STATEMENTS

All loans except non credit-qualifying streamlines: Documentation as to the source is generally required when non-payroll deposits exceed \$1,000, either individually or in aggregate, over a month's statement.

Non credit-qualifying streamlines: Sourcing of large deposits is not required.

JOINT ASSETS

Joint accounts with non-borrowing spouses are accepted.

All other accounts held jointly with another party will be accepted if all the following are met:

- Account holder address on bank statement is the same as the borrower's
- Depository confirms the SSN of record belongs to the borrower
- Other account holder affirms borrower's rights to full access on the account.

BUSINESS BANK ACCOUNTS

Based on the ownership type, the following requirements apply:

- **Sole Proprietor:** Verification that the borrower has 100% ownership of the business, for example using the tax returns provided or a copy of the business license
- **Partnership:** Borrower must be a general partner and verification of the percent of ownership is required. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other general partners is required. The percentage of ownership can be validated using the U.S. Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership
- **Corporation:** Verification that the borrower is 100% owner of the corporation or if the applicant is not a 100% stockholder, verification of the percent of ownership. In addition verification of the ability to withdraw funds to the extent of the percentage of ownership is required, along with approval of the stockholders with a corporate resolution. The applicant's percentage of

ownership can usually be determined from the Compensation of Officers section of the corporate tax return.

Bank Account Holder's Names	Eligibility
Personal	Accepted without restriction
Personal and a business name	Allowed, subject to: Exception approval Tax returns are filed as a Sole Proprietor using Schedule C Borrower is the sole owner of the business Two year financial review is made of the business tax returns Determination is made that the withdrawal of the funds will not negatively impact the business. If the tax returns were professionally prepared, a CPA letter is required as part of this determination.
Business name	See above

LOAN FROM FAMILY MEMBERS

Family members are permitted to lend, on a secured or unsecured basis, 100% of the borrower's required cash investment which may include the minimum contribution, down payment, closing costs, prepaids, and discount points. Document the source and transfer of funds from lending family member to borrower. Transactions involving a loan from a family member cannot also be a sale from one family member to another.

UNACCEPTABLE SOURCES OF DOWN PAYMENT

- Proceeds of a personal or unsecured loan unless from family member
- A gift that must be repaid in full or in part
- Cash advance on a revolving charge account or unsecured line of credit.
- Sweat Equity

CASH SAVED AT HOME

- Funds must be verified either on deposit in a financial institution or held by the escrow/title company.
- Additional documentation must include evidence provided from the borrower showing ability to accumulate such a savings and written explanation from the borrower on how such funds were accumulated and the amount of time taken to do so.
- Special consideration will focus on the amount of the borrower's income, the time period the funds were saved, spending habits, and the borrower's history of using financial institutions in order to determine the reasonableness of the accumulation of the funds.

HOMEOWNERSHIP BRIDAL REGISTRY

- Provides couples planning to get married, and other individuals who are in a situation where gifts are typically received, the opportunity to establish a savings account in order to help them accumulate gift funds to be used toward the down payment on the purchase of a home.

- In the situation of a couple planning to get married, the borrowers can distribute a letter to their family and friends.
- When gift funds are being received for a situation other than a couple planning to get married, it will be up to the individual(s) to notify their family and friends of the program.
- The borrowers are to open a new interest bearing savings account at the bank of their choice.
- Funds may be deposited by family and friends directly in the Bridal Registry Account, or given by cash or check to the couples or individuals for deposit.
- A copy of the bank statement and/or account ledger verifying the deposits and a fully executed Lender and Borrower Certification must be included in the HUD case binder.

EARNEST MONEY DEPOSITS

If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must verify with documentation the deposit amount and the source of funds. Satisfactory documentation includes a copy of the borrower's cancelled check. A certification from the deposit-holder acknowledging receipt of funds and separate evidence of the source of funds is also acceptable. Evidence of source of funds includes a verification of deposit or bank statement showing that at the time the deposit was made the average balance was sufficient to cover the amount of the earnest money deposit.

GIFTS

Gift Fund Requirements:

- An outright gift of the cash investment is acceptable if the donor is a relative of the borrower, the borrower's employer or labor union, a charitable organization, a governmental agency or public entity that has a program to provide homeownership assistance to low-and moderate-income families or first-time homebuyers, or a close friend with a clearly defined interest in the borrower
- List donor's name, address and phone number, relationship to borrower and dollar amount of gift on the gift letter, signed by the donor and borrower
- For gift funds already on deposit in the borrower's account, document the transfer of funds by obtaining a copy of the donor's withdrawal document or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit. In addition, provide a copy of the donor's bank statement showing the withdrawal from the donor's account.

If the gift funds are not deposited to the borrower's account prior to closing, the following must be obtained:

- Verification the closing agent received funds from the donor, including proof of withdrawal for the amount of the gift. The use of cashier checks, money order, official check or any other type of bank check will be acceptable provided the donor provides a withdrawal document for the amount of the gift showing the funds came from the donor's own personal account.
- In addition, if the funds were a withdrawal from donor's accounts, provide a copy of the donor's bank statement showing the donor had sufficient assets on deposit. If the donor borrowed the gift funds, documentation must be provided that the funds were borrowed from an acceptable source, i.e. not from a party to the transaction including the mortgage lender.

Cash on hand is not an acceptable source of the donor's gift funds.

Note: Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes funds to the non-profit organization are no longer acceptable as gifts.

RESERVES

1 & 2 Unit -- No reserve requirement

3 & 4 Unit -- 3 months PITI required (purchase and refinance transactions)

7. Ratios

QUALIFYING RATIOS

DU Approved Loans

Ratios evaluated by DU not to exceed 50%. Approve/Eligible with DTI in excess of 50% is subject to Credit Management Approval.

The following is a list of most common acceptable FHA compensating factors:

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the mortgage over the past 12 to 24 months
- The borrower makes a large down payment (10 percent or more) toward the purchase of the property
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses
- The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits
- There is only a minimal increase in the borrower's housing expense
- The borrower has substantial documented cash reserves (at least three months' worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the underwriter must judge whether or not the asset is liquid or readily convertible to cash and can be done so absent retirement or job termination. Also see Verification of Funds to Close-IRA's Thrift
- Savings Plans etc. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. "Assets" such as equity in other properties and proceeds from cash out refinance are not to be considered as cash reserves. Similarly, funds from gifts from any source are not to be included as cash reserves.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computation).
- The borrower has the potential for increased earnings, as indicated by job training or education in the borrower's profession
- The home is being purchased as a 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. The underwriter must document the availability of such possible employment.

QUALIFYING INTEREST RATE

3/1 and 5/1 ARMS qualify at note rate.

Hybrid ARMs qualify at the note rate.

QUALIFYING AMOUNT FOR PROPERTY TAXES

For qualifying purposes, compare the following sources and use the highest of: the appraisal, title commitment binder/prelim, tax bill if provided, or for new construction properties, 1.25% of the sale price unless a higher percentage is typical and customary.

LIABILITIES

- Installment debt obligations which extend 10 or more months must be included in the borrower's debt-to-income ratios. Debts lasting less than 10 months must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after the loan closing
- Childcare expense does not need to be included as a recurring debt
- Student loans deferred less than 12 months must be included as a recurring debt. Obtain scheduled payment amount from the creditor
- Child support payments must be counted in the total debt-to-income ratios if they will continue for 10 or more months
- Debts not counted in ratios: Funds to cover the required investment may be obtained from certain types of loans secured against deposited funds, such as signature loans, cash value of life insurance policies, loans secured by 401ks, etc. in which repayment may be obtained through extinguishing the asset, do not have to be included in the qualifying ratios. However, these assets securing the loan may not be included as assets available to the borrower
- HELOC loans: use maximum amount of line to calculate CLTV and DTI, basing payment on the payment that would be required within the next 12 months (example: don't use the interest-only minimum payment if the loan requires amortizing payments to begin within the next 12 months, use the amortizing payment).
- If joint obligations are listed in the final divorce decree and/or separation agreement as being the responsibility of the ex-spouse, then they can be omitted from the qualifying DTI calculation. The divorce decree or separation agreement must be finalized by the court and recorded.

OTHER CREDIT LIABILITIES

If the borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the borrowers debts.

- To disregard the liability, evidence must be obtained to show timely payments are being made by an obligor other than the borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months
- If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the borrower's qualifying ratios
- Payments on "Authorized User" accounts should always be included in the debt-to-income ratio unless written documentation (i.e. 12 months cancelled checks) is provided proving that the

owner of the account is making the payments. If an authorized user's account is used to meet the minimum credit requirements, then both the payment history, including any late payments and the monthly obligation must be considered in the credit analysis and included in the DTI ratios. If the AUS approval is based on authorized user account tradelines, underwriter must confirm these accounts accurately reflect the borrower's credit history.

CONTINGENT LIABILITIES

Mortgage Assumptions

If the borrower is listed as an obligor on a mortgage that has been assumed by another, a copy of the documents transferring the property and the Assumption Agreement executed by the transferee are required. The debt must be counted against the borrower unless the assumption released the borrower from liability, or:

- The originating lender of the mortgage being underwritten obtains from the servicer of the assumed loan, a payment history showing that mortgage has been current during the previous 12 months, OR
- An appraisal or closing statement from the sale of the property supporting a value that results in a 75% LTV ratio (i.e. the outstanding balance on the mortgage loan minus and UFMIP refund if applicable) cannot exceed 75% of the lower of appraised value or sales price.

See Non-Occupying Co-Borrowers for ratio requirements on affected loans.

8. Appraisers and Appraisals

APPRAISERS

Appraisers must be on FHA's approved list on the FHA connection and match the appraiser on the FHA Case Assignment. The appraisal must be dated after the appraiser assignment date in FHA connection. The FHA Connection must indicate the appraiser has passed the Mandatory Appraiser exam. The assigned appraiser must perform the physical inspection of the property. He/She may not sign the appraisal performed by another appraiser.

Beginning with cases assigned October 1, 2009, appraiser's licensing status must be as State Certified appraisers.

APPRAISALS

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA standards.

- Operating Income Statement will be required on all 2-4 unit properties
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition" prior to closing. A final inspection showing the work has been completed must be included in the file
- On credit-qualifying streamline refinances with an appraisal, a new appraisal must be ordered for this transaction. A re-cert of an appraisal from a previous transaction is not acceptable.

FHA requires the subject property photos to show a view of all sides of the home. The appraiser may either take separate photos of all sides, or may take the front and back pictures from a corner angle, such that the photo captures two sides of the house.

The case number assignment date must be prior to the effective date of the appraisal unless the appraisal was ordered for conventional lending, HUD REO or government guaranteed loan purposes but was performed by a FHA Roster Appraiser and is being converted to a FHA-insured mortgage. The loan file must contain documentation substantiating conversion of the mortgage to FHA.

If the appraisal was ordered for conventional lending or government guaranteed loan purposes but was performed by a FHA Roster Appraiser, TMS Funding underwriters must ensure that the appraisal was performed in accordance with FHA appraisal reporting requirements. Ensuring compliance with this requirement may entail a re-inspection of the property by the appraiser.

AGE OF APPRAISAL

The effective date of the appraisal must be within 120 days of the Note. If a borrower signs a valid sales contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended by the DE Underwriter for 30 days to allow for the approval of the borrower and closing of the loan.

In the event the appraisal is outside of the 120 day validity period, a new appraisal is required. The Appraisal Update cannot be used to validate the appraised value has not changed.

GENERAL APPRAISAL REQUIREMENTS

The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.

Effective with appraisals completed on and after April 1, 2009, FHA appraisals are:

- Expected to include at least two comparable sales that settled within 90 days of the appraisal's effective date, or a detailed explanation, consistent with the 1004MC addendum, identifying why the appraiser was unable to locate such sales
- Required to include two additional active listings or pending sale, which should be truly comparable and which bracket the dwelling size and sales price whenever possible
- To adjust active listings to reflect the "list to sales price ratios" from the 1004MC
- To reflect the contract price on pending sales and adjust pending sales to reflect the "list to sales price ratios"
- To include the original list price and any revisions, and total days on market (DOM), which should approximate the time frames in the neighborhood section and 1004MC
- Reconcile the adjusted values of listings, pending sales and closed sales with each other, to arrive at a defensible value estimate
- To include an absorption rate analysis.

Data source requirements

- Acceptable data sources are those that are confirmed using local sources (agents, sellers, etc. or public records). MLS by itself is not sufficient
- Sources that are not readily verifiable are not acceptable, meaning the property cannot be used as a comparable

- Known incentives and sales concessions must be included in the comparable adjustments for sold comps, as well as listings and pending comparables.

Inspections

Septic or other inspections may be required at the discretion of the appraiser or underwriter.

Two Appraisals

Two appraisals are required on re-sales when seller has owned the property between 91-180 days and the value is more than doubling.

Fee for second appraisal cannot be charged to borrower

The appraisal completed by the appraiser assigned the file in the FHA Connection is considered the first appraisal

The second independent appraisal must be ordered by TMS Funding and completed by a FHA roster appraiser

If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be predicated upon the lower of the two appraised values.

The second appraisal, when required, is to be included in the FHA insurance binder. If the second appraisal is used to recalculate the maximum mortgage amount, the underwriter must enter the appropriate information in the appraisal log in screen in FHA Connect.

Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all loans. Form 1004MC will:

- Provide the appraiser with a structured format to report market data
- Help further clarify conclusions made by the appraiser
- Supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

1004D Form Summary Appraisal Update and Completion Report

TMS Funding does not accept part A, Appraisal Updates

Effective with FHA Case Numbers assigned on and after February 15, 2010, the 1004D Part B Completion Report, will be accepted for repair inspections (but not new construction completion inspections) completed by the initial appraiser.

Disaster Areas on Streamlines without Appraisals

If the property county was declared a FEMA disaster area during the 12 months prior to application date, obtain a 92051 inspection report by an FHA approved Fee Inspector certifying no damage to the property.

Work Completion Escrows

TMS does not allow escrow hold backs.

9. Compliance/Special Considerations

TMS Funding does not make any loans which are defined as “high-cost” under Section 32 or any State or locally governed legislation.

Maximum real estate sales commission is 8%, including any auction fees. The amount that exceeds 8% must be deducted from the sale price, and LTVs calculated accordingly.

TMS Funding reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet FHA and TMS Funding Government Underwriting guidelines.

All Refinances must provide a net tangible benefit to the borrower.

CAIVRS, LDP AND GSA SEARCH

Check the FHA Connection and document the results on the LT.

A copy of the FHA Connection screen results for all searches must be in the loan file.

Each borrower is assigned an alpha-numeric CAIVRS number with the FHA Case Number assignment. CAIVRS beginning with the alpha character "A" are acceptable. Contact the DE underwriter for any CAIVRS beginning with a different alpha character.

All parties to the transaction must be checked against the LDP and GSA including: borrowers, sellers, listing and selling real estate agents, loan officers, appraiser, termite company, licensed professionals providing certifications (such as heating, plumbing, air conditioning, roofing and electrical companies). If any party appears on either list, the application is not eligible for mortgage insurance. An exception may be made when a seller appears on the LDP list and the subject property is the seller's principal residence.

Required on all loans, except non-credit qualifying streamline refinances.

ALLOWABLE BORROWER PAID FEES

Lenders may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage loan.

Borrowers may not pay a tax service fee.

FHA no longer limits the origination fee to one percent of the mortgage amount for its standard mortgage insurance programs

The lender may only collect fair, reasonable, and customary fees and charges from the borrower for all origination services. FHA will monitor to ensure that borrowers are not overcharged. Furthermore, the FHA Commissioner retains the authority to set limits on the amount of any fees that a lender may charge a borrower(s) for obtaining an FHA loan.

Additionally, FHA does not allow "mark-ups." The cost for any item charged to the borrower must not exceed the cost paid by the lender, or charged to the lender by the service provider.

Only the actual cost for the service may be charged to the borrower.

Discount points charged by the lender on a purchase transaction may be charged to the buyer, but may not be included in the financed mortgage amount.

Reasonable discount points for refinance transactions may be financed into the mortgage amount, subject to equity requirements and other restrictions applied to refinances.

10. Change Log

9/28/11

Added Mississippi as an acceptable state

11/9/11

Removed investment property from eligible properties

Updated Tangible Net benefit for ARM refinance