



Remembering FHA

Refresher course for brokers

What are the advantages to an FHA loan?

- Rates are well below subprime and competitive with conventional rates
- Loan amounts equal to Fannie/Freddie limits
- No declining market reduction to loan-to-value
- No prepayment penalties
- Assumable
- Low down payment requirement of 3%
- Seller/Third party contribution up to 6% regardless of loan-to-value

What are the advantages to an FHA loan?

- Entire down payment can be a gift
- 95% cash-out and 97% rate and term refinance guidelines
- No price adjustments for loan-to-value, loan amount or credit score
- Alternative credit history acceptable

Qualifying/Credit

- 31/43 for manual underwrite
- Back end ratios higher if receive DO approval
- 2 years from bankruptcy discharge to be eligible for financing
- 3 years after a foreclosure to be eligible for financing
- Blended ratios with non-occupying co-borrower
- No credit scores required (must fit profile of a cash-on-hand borrower)
- Alternative credit sources acceptable
- UFMIP 1.5% and monthly factor is .5
- Deferred student loans

Qualifying/Credit

- TIN is not allowed
- Citizenship is not required but must have legal social security number and eligible to work in the U.S.
- Credit for non-purchasing spouse must be run; debt counts in ratios but derogations do not necessarily effect our borrower's qualifying
- Collections MAY not be required to be paid off
- Borrowers who demonstrate a willingness to pay are candidates

Assets

- 3% minimum investment
- Down payment can be a gift from a family member, non-profit, local government entities and employers
- For Calyx Point users, please use gift letter in FHA section not regular forms section
- Bridal registry account acceptable
- 6% seller/agent credit can be applied to closing costs and prepaids
- Inducements to purchase such as repair credit or carpet allowances are not allowed; the sales price will be reduced dollar for dollar
- 95% cash out

Income

- 2 years employment required
- OT/bonus must be received for 2 years, confirmed on VOE and likely to continue
- Part-time/seasonal work ok if have history
- Commissioned income ALWAYS requires 1040s for 2 years
- Retirement, social security, alimony and child support must prove receipt for 3 years in the future
- Child support can be grossed up based on borrower's tax bracket
- Interest and dividend income can be used if documented by 2 year average taken from 1040s; cannot use as an asset if using as income
- Rental income 75% or 1040s

Property

- FHA approved appraiser
- Case number ordered on FHA Connection
- Appraiser must review purchase contract and make comment on report
- Adopted Fannie appraisal form
- VC Sheets and Homebuyer Summary no longer required
- Termite inspections/reports, well, septic and flat roof certifications only required if appraiser calls for it
- Missing handrails, cracked windows/glass, minor plumbing leaks, poor workmanship and defective floor coverings no longer required to be fixed unless appraiser calls for it
- Manufactured housing acceptable

Property

- Termite reports are not required unless the appraiser or underwriter notes visible problems. When a termite report is required Section I and II items must be cleared. Section II items waived on a case-by-case basis at the underwriter's discretion.

• **New rule!**

A Second Appraisal will be required when:

- The loan amount, excluding the upfront mortgage insurance premium, will exceed \$417,000, and
- The LTV, excluding upfront MIP, equals or exceeds 95%, and
- The property is determined as being in a declining market. -Mortgagee

Letter 2008-09

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Compensating Factors

- Borrower has been making payment equal to or greater than the proposed monthly housing expense for the new mortgage
- Borrower has a large down payment
- Borrower has demonstrated a conservative attitude towards the use of credit and the ability to accumulate savings
- Borrower has substantial cash reserves after closing (at least 3 months PITI)
- Borrower receives compensation not reflected in the effective income, but directly affecting the ability to pay the mortgage and other obligations

Compensating Factors

- Borrower has a potential for increased earnings as indicated by job training or education in his/her profession
- Borrower has income of temporary nature (while not considered effective, this income may be considered available to meet short-term non-recurring charges)
- Annually increasing income (especially on ARM loans)
- A small (not more than 10%) increase in housing expense
- Borrower receives a considerable amount of effective income from non-taxable sources

Compliance Forms

- Good faith estimate
- FHA Amendatory Clause (may be in escrow instructions)
- For Your Protection: Get a Home Inspection
- Real Estate Certification
- HUD Addendum to the Uniform Residential Loan Application
- Notice to Homeowner (Regarding Assumptions)
- Hotel & Transient Use of Property (for units only)
- Important Notice to Homebuyers

Purchase Contract

- Must disclose FHA financing
- Lead Based Paint disclosure
- Disclose seller paid closing costs
- Transfer Disclosure Statement (TDS)

Loan Amount Calculation

Sales price x 97% equals base loan amount

Base loan amount x 1.5% equals UFMIP

Base loan amount + UFMIP equals total loan amount

P&I calculated from total loan amount

Hazard insurance factor is .35 and calculated from total loan amount

Property tax factor is usually 1.25 and calculated from sales price

Monthly mortgage insurance factor is .5 and calculated from base loan amount

Jumbo FHA

- Minimum 620 score
- Purchase and no cash out refinances with loan amounts greater than \$417,000, max LTV is 94.99%
- Purchase and no cash out refinances with loan amounts less than \$417,000, max LTV is 97.75%
- Cash out refinances with loan amounts greater than \$417,000, max LTV is 85%
- Max loan amounts \$729,750, \$934,200, \$1,129,250 and \$1,403,400

Help!

Questions about eligibility to technical underwriting and appraisal issues.

<http://faq.fha.gov>

FHA Connection at

<https://entp.hud.gov/clas/index.cfm>

HUD's main web page at

www.hud.gov